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**APPRAISAL OF  
KOREA DEVELOPMENT FINANCE CORPORATION**

**April 27, 1973**

**Regional Projects Department  
Asia Regional Office**

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### CURRENCY EQUIVALENTS

US\$1.00	=	Won 400
W1,000	=	US\$2.50
W1,000,000	=	US\$2,500.00

### ABBREVIATIONS

KDFC	-	Korea Development Finance Corporation
KDB	-	Korea Development Bank
MIB	-	Medium Industry Bank
KIFC	-	Korea Investment and Finance Corporation
FKI	-	Federation of Korean Industries
EPB	-	Economic Planning Board
KfW	-	Kreditanstalt fur Wiederaufbau
ADB	-	Asian Development Bank

APPRAISAL OF  
KOREA DEVELOPMENT FINANCE CORPORATION

TABLE OF CONTENTS

	<u>Page No.</u>
BASIC DATA .....	i
SUMMARY .....	iii
I.    INTRODUCTION .....	1
II.   ENVIRONMENT .....	1
Economic Growth .....	1
Industrial Environment .....	2
Financial Environment .....	4
III.  KDFC - INSTITUTIONAL ASPECTS .....	8
Share Capital and Ownership .....	8
Board of Directors .....	8
Management .....	8
Staff .....	9
Organization .....	9
Policies .....	9
Procedures .....	9
Profitability and Financial Position .....	11
Audit .....	14
Market Quotation .....	14
Relations with the Government and the Business Community .....	14
IV.   RESOURCE MOBILIZATION AND ALLOCATION .....	15
Direct Resource Mobilization .....	15
Indirect Resource Mobilization .....	16
Resource Allocation .....	17
Characteristics of KDFC's Financing .....	18
V.    KDFC - PROSPECTS .....	20
General Outlook .....	20
KDFC's Business Forecasts .....	20
Resource Requirements .....	21
Projected Financial Results .....	22
VI.   CONCLUSIONS AND RECOMMENDATIONS .....	23

This report is based on the findings of a mission, comprising Messrs. R. L. Powell, K. Ahmed, J. Channugam and T. Kawasaki, which visited Korea in January 1973 and on the report 'KDFC Special Study - Volume I' of January 18, 1973 (Yellow Cover).

ANNEXES

1. Details of Interest Rate Changes by Banking Institutions as of August 4, 1972
2. List of Shareholders as of December 31, 1972
3. Board of Directors
4. Statement of Operational Policies
5. Audited Income Statements (1969-1972)
6. Audited Balance Sheets (1969-1972)
7. Loans in Arrears as of December 31, 1972
8. Summary of Approvals, Commitments and Disbursements (1968-1972)
9. Investment Approvals by Industry (1968-1972)
10. Investment Approvals by Geographical Spread, Type of Loans, Size of Loans, and Maturities (1968-1972)
11. Approvals of Guarantees, Equity Investments, Convertible Debentures and Underwritings (1968-1972)
12. Forecast of Approvals, Commitments and Disbursements (1973-1977)
13. Projected Balance Sheets (1973-1977)
14. Projected Income Statements (1973-1977)
15. Projected Cash Flow Statements (1973-1977)
16. Schedule of Estimated Disbursements

ORGANIZATION CHART

# KOREA DEVELOPMENT FINANCE CORPORATION

## BASIC DATA

1. Year of establishment 1967.

2. <u>Ownership (December 31, 1972)</u>	<u>Amount of Shares</u> (W million)	<u>Percentage of Total</u>
Domestic	1,093	60.7
IFC	257	14.3
Other Foreign	<u>450</u>	<u>25.0</u>
	1,800	100

3. IBRD Loans

<u>Loan No.</u>	<u>Date Signed</u>	<u>Rate of Interest</u>	<u>Status of Loans as of Dec.31,1972</u> (in US\$'000)		
			<u>Amount</u>	<u>Credited</u>	<u>Disbursed</u>
529-KO	Jan.31,1967	variable	5,000	4,950	4,950
622-KO	Jun.26,1969	6-1/2%	20,000	19,200	17,100
735-KO	May 17,1971	7-1/4%	30,000	20,900	12,300

4. Operations

<u>Approvals</u>	<u>1968-70</u>	<u>1971</u>	<u>1972</u>	<u>Total</u>
Local currency loans (W million)	1,815	286	390	2,491
Equity investments and convertible debentures	1,228	388	200	1,816
Foreign currency loans (\$'000)	<u>(24,190)</u>	<u>(9,292)</u>	<u>(20,694)</u>	<u>(54,176)</u>
Total (W million) <u>1/</u>	10,570	4,150	8,678	23,398
<u>Commitments</u>				
Local currency loans (W million)	1,715	386	320	2,421
Equity investments and convertible debentures	1,128	488	200	1,816
Foreign currency loans (\$'000)	<u>(21,941)</u>	<u>(6,980)</u>	<u>(12,490)</u>	<u>(41,411)</u>
Total (W million) <u>1/</u>	9,705	3,485	5,522	18,712
<u>Disbursements</u> (W million) <u>1/</u>	5,794	5,181	7,002	17,977

1/ Exchange rate applied: US\$1 = W280 for 1968  
 = W305.2 for 1969  
 = W317.4 for 1970  
 = W374.1 for 1971  
 = W400.5 for 1972

5. Financial Performance

<u>Year ending December 31</u>	<u>(Ton million)</u>		
	<u>1970</u>	<u>1971</u>	<u>1972</u>
(a) Total assets	8,018	13,794	20,766
of which loan and equity portfolio	5,659	11,478	17,182
Long-term debt	5,059	10,236	16,429
won subordinated loan	2,025	2,025	2,025
Foreign currency loans	3,034	8,211	14,490
Equity	2,881	3,384	3,910
Long-term debt/equity	1.7:1	3.0:1	4.2:1
Long-term debt/equity as defined in Bank Loan Agreement	0.6:1	1.5:1	2.4:1
(b) Earnings before interest, provisions and tax as % of average total assets	13.7	12.0	11.0
Profit after tax and provisions as % of average equity	22.8	20.7	18.9
Reserves and provisions as % of portfolio	26.7	16.2	13.2
Financial expenses as % of average total assets	3.5	4.8	5.3
Administrative costs as % of average total assets	3.0	2.4	1.7
Book value as % of par value	194	207	217
Dividend:			
Cash	10.0	10.0	10.0
Stock	10.0	10.0	10.0
Dividend pay-out ratio	24.6	25.1	26.1

APPRAISAL OF

KOREA DEVELOPMENT FINANCE CORPORATION

SUMMARY

i. The growth of the Korean economy continued during the second Five-Year Plan (1967-71) at the high rate of 11.5%, with the manufacturing sector growing almost twice as fast as GNP and the value of exports increasing at an average annual rate of 35% during this period. In 1972, despite a relative recession in the economy in the first half of the year, exports are provisionally estimated to have been around \$1.6 billion, compared with \$1.1 billion in 1971. The Third Five-Year Plan, for 1972-76, sets an export target of \$3.5 billion in 1976, mainly in manufactured goods. The share of manufacturing and mining in total fixed capital investment is projected to rise from 23% at the end of 1971 to about 28% in 1976.

ii. In August 1972 the Government took measures designed, inter alia, to suppress the large unorganized money market (which customarily charged usurious rates of interest), to lower the structure of interest rates, to contain inflation and to stabilize the won-US dollar exchange rate at about W400 to the dollar. To date the measures taken have achieved some success. Investment confidence has revived from its relatively low level of 1971 and the first half of 1972, and the demand for investment capital in the manufacturing sector is increasing sharply in line with the target laid down in the Third Plan. The demand for the type of assistance Korea Development Finance Corporation (KDFC) - with its access to Bank funds carrying reasonably long-term maturities - is able to give is therefore likely to be heavy in the next few years.

iii. KDFC was established in 1967. It was sponsored by the Federation of Korean Industries with the support of the Government and the assistance of the Bank and IFC. When it began operations in March 1968, its initial capitalization consisted of share capital of W1.35 billion, (\$5 million at the rate of exchange then current, W270 = US\$1), a Government subordinated loan of W2.025 billion (\$7.5 million) and loans of \$5 million each from the Bank and US AID (US AID's loan was subsequently reduced to \$3 million). <sup>1/</sup> The initial resources available to KDFC therefore totaled \$22.5 million equivalent. By the end of 1972 KDFC's net worth had increased to W3.9 billion (\$9.75 million at the current rate of exchange of W400 = US\$1) including share capital of W1.8 billion, increased from the original amount by annual stock dividends from 1969 onwards. As of the same date KDFC had received three Bank loans totaling \$55 million and a loan from Caterpillar (Far East) Ltd. of \$5 million, subsequently reduced to \$1 million. <sup>1/</sup> KDFC plans to increase its share capital to W3 billion in 1973, by a stock dividend of 10% (already declared) and by a rights issue for cash amounting to W1.02 billion.

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<sup>1/</sup> Both loans were "tied" and moved slowly.

iv. KDFC was set up to assist the development of private enterprise in Korea mainly by providing medium-term and long-term finance. Although the growth of KDFC's portfolio has been rapid, from W300 million at the end of 1968 to W17.2 billion at the end of 1972, in quantitative terms it is still relatively small, with a share around 2% of total gross domestic capital formation in manufacturing and mining in 1971. In qualitative terms KDFC's role has been more important due to the high professional standards it maintains, particularly in the appraisal of projects. In providing term finance to industry, KDFC works alongside two much larger Government-controlled institutions, Korea Development Bank (KDB) and Medium Industry Bank (MIB), and branches of five foreign commercial banks. The operations of KDFC, KDB and MIB are complementary, but KDFC faces increasing competition from foreign commercial banks, in term lending.

v. KDFC has been well-managed from its inception and has been headed by the same President, Mr. C. H. Kim, throughout the period. He is supported by two Vice Presidents and a competent professional staff of 50, including four able department managers. KDFC's organization structure has served it well until now but the management is currently reviewing it to determine whether the growth in KDFC's operations calls for administrative changes.

vi. KDFC's operating policies and procedures are generally of a high standard, although KDFC is seeking to strengthen its work on the economic assessment of projects and on project supervision. KDFC's lending rate for won loans is currently 15.5% per annum, in line with the interest rate structure directed by the Government. Its lending rate on foreign exchange loans has remained unchanged for the past five years at 10% per annum, with its borrowers bearing the exchange risk. That rate is under competitive pressure. As of December 31, 1972, KDFC had approved 109 loans and investments amounting to W23.4 billion (\$58 million equivalent). At the same date, about 82% of its portfolio was represented by foreign currency loans. KDFC's financial position and performance have been satisfactory throughout its life. In 1972, earnings represented 38% on share capital and 18.9% on net worth. Since 1969, KDFC has declared an annual dividend of 20% (10% in cash and 10% in stock). Its portfolio is sound and provisions amply cover any likely losses.

vii. KDFC's uncommitted domestic currency resources as of January 1, 1973, together with collections and retained earnings, should enable it to undertake the won commitments it has projected. For projected foreign exchange commitments, KDFC will require additional foreign exchange resources of about \$50 million in the two-year period beginning June 1973, when the third Bank loan is expected to be fully committed. It hopes to raise \$6 million equivalent from Kreditanstalt fur Wiederaufbau (KfW). This leaves a shortfall of about \$44 million. The Bank has so far been the principal source of KDFC's foreign exchange resources. With a view to reducing KDFC's dependence on the Bank, KDFC and the Government have prepared a plan to diversify KDFC's foreign exchange resources, in part through borrowing within the next two years in foreign commercial markets. This plan was discussed and agreed during negotiations. It is, however, important that KDFC should be enabled



to maintain continuity of growth. Against the prospective shortfall of about \$44 million, a fourth Bank loan of \$40 million is recommended.

viii. The terms of the proposed loan should be similar to those of recent Bank loans to development finance companies, including the standard commitment charge. In view of the competence of KDFC's management and staff, its high operational standards, the soundness of its portfolio and its financial position and performance, and so as not to constrain its operations unnecessarily, the Bank Loan Agreement should provide for a debt/equity ratio of 4.5:1, in place of the present limit of 3:1. The free limit should be increased to \$750,000 instead of the present \$500,000, with an aggregate free limit of 25% of the proposed loan amount.

ix. During 1972 KDFC collaborated with a Bank mission in an intensive effort to establish, by a detailed study of a sample of KDFC projects, KDFC's developmental impact in general, and the overall economic rate of return on the projects it had financed. The results of the study have led to the conclusion that the aggregate economic rate of return on projects financed by KDFC is unlikely to be less than 25%.



## APPRAISAL OF

### KOREA DEVELOPMENT FINANCE CORPORATION

#### I. INTRODUCTION

1.01 The Bank Group actively collaborated with KDFC's sponsors, the Federation of Korean Industries, in shaping the plans that led to KDFC's establishment in 1967. KDFC is the largest privately-controlled development finance company in Korea and operates alongside a few Government-owned financial and investment institutions. KDFC has todate received three loans from the Bank totaling US\$55 million. The company's performance (last reviewed in the Appraisal Report No. DB-76a of April 12, 1971) has been satisfactory and the third Bank loan, US\$30 million, is expected to be fully committed around May 1973. In view of the substantial volume of pending applications for foreign currency financing, KDFC needs new capital soon. This report appraises KDFC and recommends a fourth Bank loan, for US\$40 million.

#### II. ENVIRONMENT

##### Economic Growth

2.01 Reference is invited to the latest Bank Economic Report on Korea, EAP-33a, November 3, 1972.

2.02 In recent years Korea has achieved outstanding success in economic development. The economy recorded a real GNP growth of 11.5% per year in the Second Five-Year Plan (1967-71) while real per capita income doubled between 1963-71, rising to its present level of \$280. Export performance of the country has been even more spectacular, registering an average annual increase of 35% during the Second Plan period with the value of exports rising from \$250 million in 1967 to \$1,100 million in 1971. On the basis of provisional figures, exports for 1972 are around \$1,600 million. The share of gross fixed investment in GNP advanced equally significantly from 11% in 1960 to 28% in 1970.

2.03 As a consequence of this high rate of growth the economy developed some imbalances which manifested themselves in rising inflationary pressures and frequent exchange rate adjustments. Prior to 1965, the rate of general price increases was in the order of 20% a year. Measures to contain inflation and stabilize the economy, implemented in successive stages, brought this rate down by half in the latter part of the sixties. However, consumer price increases accelerated again in 1971 when inflation reached a rate of 15%. These inflationary pressures were reflected in exchange rate adjustments between 1969-1972 changing the won - US dollar parity from W280 in 1968 to W400 to a dollar in 1972.

2.04 In 1970 the Government launched a Stabilization Program which, coupled with the political uncertainty of an election year (1971), international currency realignments of 1971, trade restrictions by USA (Korea's principal importer) and a slow down in Japan, depressed the growth rate below the level originally intended, to around 7% in the first half of 1972. During 1971 and the first half of 1972 industrial capacity was under-utilized. However, in the second half of 1972 revived demand from Japan and the United States, and Korea's penetration of new markets, led to a sharp increase in Korea's exports, which rose about 45% above those for 1971. This rapid growth reduced the under-utilization of industrial capacity more quickly than seemed likely in mid-1972. By early 1973 an export-led boom appeared to be under way, and investment demand was growing. The Third Five-Year Plan, 1972-76, lays down an export target of \$3.5 billion in 1976, to be met mainly by the manufacturing sector. It appears attainable.

#### Industrial Environment

2.05 Recent expansion. At an annual growth rate of 17% in the period 1960-71, manufacturing has been the fastest growing sector of the Korean economy and now dominates all the other sectors with a GNP share of 28%. Gross fixed investment in the manufacturing sector has risen from \$243 million equivalent in 1967 to \$379 million in 1971. This rising trend of capital formation coincides, in part, with the growing share of manufactures in exports, which rose from 64% in 1967 to 80% in 1971 with principal contributions coming from textiles 54%, veneer sheets and plywood 14%, electrical machinery and appliances 8%. The latest won devaluation in February 1973, in line with the US dollar, and the earlier currency realignments noted above augur well for Korean exports - especially to Japan and the Common Market - with an increasing share of manufactured goods.

2.06 Structure. The following table gives the sectoral distribution of the manufacturing sector with gross value of production for 1965 and 1970:

Gross value of output <sup>/1</sup> - 1965 prices

Consumer Goods Industry	1965		1970	
	(Billion Won)	Percentage share in total	(Billion Won)	Percentage share in total
Food, Beverage, Tobacco	119.4	29.4	327.3	28.4
Textile and Footwear	130.9	32.1	328.2	28.4
Wood, Paper, Furniture	32.1	7.9	172.1	14.9
Printing, Leather, Rubber	28.7	7.0	47.1	4.0
Sub-Total	311.1	76.4	874.7	75.7
<u>Intermediate and Capital Goods Industry</u>				
Chemical	25.2	6.3	83.9	7.2
Basic metal	23.4	5.8	60.5	5.2
Metal products	9.3	2.3	16.6	1.4
Machinery	9.8	2.5	14.0	1.0
Electrical machinery	11.4	2.9	49.7	4.9
Transport Equipment	15.4	3.8	53.2	4.6
Sub-Total	94.5	23.6	277.9	24.3
Total	<u>405.6</u>	<u>100.0</u>	<u>1,152.6</u>	<u>100.0</u>

/1 Source: Economic Planning Board.

2.07 The figures quoted above show that consumer goods industries continued to retain a dominant share (around 75%) in the manufacturing sector between 1965-1970 and the gross output for consumer goods and for intermediate and capital goods advanced in almost identical proportions over these years. However, the current Five Year-Plan, which reflects the Government's policy to broaden the industrial base, projects the balance to shift increasingly in favor of intermediate and capital goods industries with a rising proportion of investments going into petro-chemicals, metals, machine tools and ship-building.

2.08 Industry in Korea is by and large privately owned with only 15% of the total investment in 1971 coming from public sources. As a matter of policy, the Government continues to encourage increasing participation of the private sector in promoting industrial growth and has therefore reduced its projected share in industrial investment during the period 1972-1976 to 10%.

2.09 Incentives. As instruments of its policy the Government has used a wide range of incentives to foster the growth of export-oriented and key consumer goods industries. Subsidized financing has been the most frequently used incentive. Lately, however, the scope for subsidized financing - with the promulgation of August 1972 Decree (paragraph 2.19) has been somewhat

reduced. As is the practice in most developing countries, export-oriented industries are given tax incentives, wastage allowance on imports and import duty exemptions on raw materials. The cost of these export incentives was estimated to be around W110 (30%) <sup>1/</sup> for each dollar of export in 1971. The Government keeps the cost of export subsidy under constant review and recently reduced the wastage allowances permitted on imports utilized in export industries. Similarly, with the increasing availability of indigenous substitutes, the list of duty free raw materials was trimmed in 1972. A Bank study on incentives in Korea and other developing countries is nearing completion. Its preliminary conclusion is that effective protection for industry in Korea is not excessive in relation to rates prevailing in other developing countries.

### Financial Environment

2.10 Sources of finance. <sup>2/</sup> In the last decade Korea has relied heavily on foreign loans (including suppliers' credit) and investments in the manufacturing and mining sectors, with \$257 million or 68% of the total fixed domestic investments (\$379 million equivalent) in 1971 coming from foreign sources. A high percentage of these funds, including most of those disbursed by the foreign commercial banks, has been processed under the Foreign Capital Inducement Law. <sup>3/</sup> However, the loans coming from international and regional institutions have not been made directly to manufacturing borrowers. They have instead been channeled through the two Government controlled relending institutions, Korean Development Bank (KDB) and Medium Industry Bank (MIB), and through KDFC.

2.11 KDFC's share in the financing of manufacturing and mining so far represents, on an outstanding basis, only about 2% of the total. KDB and MIB are much larger institutions. However, in the narrower field of foreign exchange financing for the private manufacturing sector, KDFC's relative importance is growing. Its disbursements in 1971 were about 10% greater than those of MIB which in turn made disbursements about 10% more than those of KDB. KDB finances both public and private sector projects acting largely as an intermediary for channelling Government and AID counterpart funds in addition to foreign exchange. At the end of 1971, 44% (W69 billion) of its loan portfolio was in the manufacturing sector, of which W42 billion consisted of loans for fixed assets. As for MIB, 89% (W61.5 billion) of its outstanding portfolio represented loans to medium and small industries (with under 200 employed or total assets not exceeding \$250,000) of which 40% was for fixed investments and 60% for working capital. KDFC's total portfolio at the end of 1971 was W11.5 billion, practically all of which was for the purchase of fixed assets.

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<sup>1/</sup> At the rate of exchange prevailing at the time (Economic Report EAP-33a, November 3, 1972).

<sup>2/</sup> The statistical information used in "Sources of Finance" is from EPB and the Bank of Korea Annual Report 1971.

<sup>3/</sup> This law sets out the system for encouraging and regulating the inflow of foreign capital.

2.12 The other significant sources of industrial finance are the commercial banks, of which the most important are also Government controlled. They presently contribute 70% of the won loans to the manufacturing sector from amongst the major lending institutions (including KDB and MIB) but around 97% of their loans are for short-term working capital (normally rolled over) with the balance of 3% being overtly used for fixed investments.

2.13 The Government-owned Korea Investment Corporation (until recently known as Korea Investment Development Corporation) presently functions primarily as a broker for the offering and distribution of corporate securities carrying two-year maturities, which it often guarantees. Its contribution as a source of industrial finance has so far been modest.

2.14 Another institution, namely, Korea Investment and Finance Corporation, (KIFC) which was jointly promoted by KDFC and IFC and started operations in May 1972, is expected in due course to play an important role in providing finance to the private industrial sector as well as in the development of the capital market. Its range of operations includes buying and selling commercial paper, issuing its own paper, under-writing and investment activities. So far it has only been engaged in sale and purchase of 90 day commercial paper. (See also paragraph 4.08).

2.15 Capital Market. The capital market in Korea still plays only a minor role in directing private savings into industrial investments. Until recently, because of the existence of attractive alternative investment opportunities such as curb market placements, bank time deposits and real estate - all giving higher returns than the average yield on stocks - investors have had little interest in the stock market. Moreover, most business enterprises in Korea are closely held and their shares are not traded. In spite of generous inducements to "go public", such as preferential corporate tax rates and special depreciation allowances few companies have chosen to admit "out-side" share-holders. Paragraph 2.22 below refers to a recent Government measure to encourage a wider spread of ownership of business corporations.

2.16 Unorganized money market. Until recently there has existed in Korea a large unorganized money market which in August 1972 reported outstanding credits of W345 billion (US\$862 million) at rates ranging between 30% and 60% per annum. Although the existence of a curb market is not uncommon in developing countries, the size of the market in Korea was unusual and appears to have grown in part because of the Government's fiscal and financial policies. The main reasons that fostered the growth of this market were: (i) absence of short-term credit instruments to attract short-term (below 90 days) savings; (ii) low tax rate (16.5%) on interest income from private loans in comparison with corporate tax of up to 49.5%. (Although this anomaly was removed by the tax reform in 1972, while it lasted it gave an incentive to owners of firms to extract higher returns as interest income on loans they made to their own firms than the dividend income that would have accrued to them if those funds had become part of the share capital); and (iii) the squeeze on credit from the organized market that was part of the Government's Stabilization Program in 1969-1970.

2.17 It was in this environment of an unsatisfactory interest rate structure, an under-developed capital market and a booming unorganized money market that the Korean Government decided to impose financial discipline through Presidential Decrees, details of which are discussed under "Government Measures" (paragraphs 2.21 and 2.22).

2.18 Interest rates. In an environment where the principal credit institutions are Government controlled the interest rate structure in the organized market follows the dictates of public policy. In recent years the Government of Korea has been steadily bringing the rates down. For example, in 1968 the typical short-term lending rate for commercial banks was 26% per annum which after successive reductions between 1968-1971 came down to 22% per annum in 1971 and to 19% per annum in January 1972. Similarly, there was a parallel movement in deposit rates which resulted in the 12-month deposit rate during this period being reduced from 25.2% in 1968 to 16.8% at the beginning of 1972. Certain industries have had access to credit at concessionary rates, mostly from fiscal funds and from Bank of Korea. These rates have generally ranged from 6% to 12% per annum.

2.19 The Government has been influenced in its decision to lower the interest rates on domestic credit by several factors, notably: (i) the high interest rates prevailing in Korea encouraged excessive medium-term borrowing from abroad (at nominal rate around 6-7%) by private enterprises, in spite of the foreign exchange risk. This aggravated Korea's debt service burden and led to restrictions in 1970 on such borrowings; and (ii) more importantly, the high cost of domestic borrowing was adding to the inflationary pressures in the country and threatened to affect the competitiveness of Korean products in the export market.

2.20 Against this background of high interest rates and the consequent squeeze on profits experienced by many commercial enterprises, the Government decided to rationalize the domestic interest rate structure further in August 1972 by a Decree which, inter alia, lowered the interest rate charged by banking institutions from 19% to 15.5% per annum on loans for one year or longer and the rate for one year deposits from 16.8% to 12%, with corresponding reductions in other interest rates. The typical rates prevalent in Korea immediately before and after the August Decree are summarized in Annex 1.

2.21 Government measures. The measures proposed in the August 1972 Decree were:

- (i) Rescheduling of all private non-banking loans to allow a grace period of three years and subsequent repayment over a period of five years at an interest rate of 16.2% per annum. There was also a mandatory requirement for conversion into equity of the funds loaned by owners to their own firms.
- (ii) A loan of W200 billion, wholly subscribed by the Bank of Korea, was made available to the banking system to enable it to replace high cost, short-term loans to industry with 8-year loans at 8% per annum. In order to avoid



increase in the money supply, banking institutions were required to place in the custody of the Bank of Korea all the short-term loan funds collected through such replacement.

- (iii) Reduction of the basic lending rate (for one year and longer) from 19% to 15.5% per annum and of the 12 month deposit rate from 16.8% to 12%.
- (iv) Stabilization of exchange rate at about W400 to the dollar.
- (v) Effective measures to be taken to keep the annual rate of inflation around 3%.

2.22 The Public Corporation Inducement Law. The August Decree was followed by another Decree in December 1972 called "The Public Corporation Inducement Law" which lays down the following conditions under which business undertakings may be required to offer their share capital to the public. The number of shares to be offered and the terms of the offer are to be determined in each case by a Government Committee.

- (i) Any corporation which has been authorized a cash loan/capital goods contract under the Foreign Capital Inducement Law for an amount to be prescribed by a Presidential decree.
- (ii) Any corporation which carries readjusted private (unorganized money market) loans of W100 million or more.
- (iii) Any corporation which has an outstanding credit balance of W1 billion or more from lending institutions.
- (iv) Any corporation whose going public is considered necessary in the overall national economic interests.

The terms of the law are drastic. It is not possible to predict the effects of its implementation.

2.23 Impact of Government Policies. It is too soon to undertake a full and objective assessment of the impact that these measures - with all their ramifications - have made on Korean business. For example, it is debatable whether the August measures spell a complete elimination of the unorganized money market or merely its temporary suppression. Similarly, while the Government in the last few months has succeeded in keeping the general price level in check (with a slight drop in the Seoul consumer price index between August and December 1972) it is too soon to judge whether inflation can be contained indefinitely within the 3% target. For example, recent changes in currency rates are likely to raise the cost of imported goods. On the other hand, the lowering of interest rates and the rescheduling of curb market loans have relieved the private sector of some of its earlier uncertainties and reduced its financial burden. Most of the August measures, however, provided only short-term relief to firms in financial difficulties

and these had to be supported by long-term measures to strengthen the financial structure of industrial undertakings. The Public Corporation Inducement Law (paragraph 2.22) was one such measure. The Government is also planning a radical reform of the Korea Stock Exchange as part of its drive to encourage the growth of the capital market, but the details of the proposed reform are not yet known.

### III. KDFC - INSTITUTIONAL ASPECTS

#### Share Capital and Ownership

3.01 KDFC's initial paid-in share capital of W1,350 million has increased annually since 1969 through a 10% stock dividend to W1,980 million in February 1973. Arrangements are now in hand to increase it further by W1,020 million in September 1973 by a rights issue for cash (paragraph 4.03) which would raise KDFC's total paid-in share capital to W3,000 million.

3.02 Details of KDFC's shareholders are given in Annex 2. As of December 31, 1972, Korean shareholders owned 60.7% of the share capital. Private companies and individuals held 32.7% and insurance companies and commercial banks 14.3% and 13.7% respectively of the total. The foreign part (39.3%) was held by IFC (14.3%) and foreign commercial banks (25%). While the Korean ownership has changed little in the last two years, there was one notable change in the foreign shareholding when in 1971 Banca Commerciale Italiana sold its entire holding (2% of the total) to Bank of Montreal.

#### Board of Directors

3.03 KDFC's Articles of Incorporation provide for a Board of 13 directors of whom 5 represent foreign shareholders and IFC (Annex 3). The 8 Korean directors are all senior members of Korea's banking and business community. The Board is ably headed by Mr. C. S. Hong, formerly a leading industrialist and still very respected and influential. While the Board lays down policy guidelines for KDFC's management and has the ultimate responsibility for all investment decisions, it has delegated authority to an Executive Committee of 4 Board members (including the Chairman, the President of KDFC and a representative of the foreign share-holders) to approve individual loans and investments up to \$1,000,000 equivalent.

#### Management

3.04 KDFC's senior management is headed by Mr. C. H. Kim, who was formerly Governor of the Bank of Korea and who has been President of KDFC since its inception. He directs KDFC's affairs wisely and well, and is held in high regard both by the business community and Government in Korea. He is assisted by two Vice Presidents: Mr. B. J. Lee, formerly a Director of KDB and Governor of KIDC; and Mr. C. K. Lee, an experienced commercial banker. The senior management is supported by four competent Departmental Managers. The Vice Presidents and the four departmental managers have considerable banking and business experience which combined with their intimate knowledge

of KDFC's operations gives KDFC's management strength in depth, and offers the prospect of continuity of good management.

3.05 KDFC, since the start of its operations, has had the services of an expatriate advisor, Mr. C. Terrel, recommended by the Bank. His contribution in setting project appraisal standards, sound internal procedures and in staff training, especially of the departmental managers, has greatly helped KDFC to establish itself as an efficient and well-run organization. Mr. Terrel left KDFC in March 1973 and it is a measure of KDFC's growing maturity and confidence, as well as of his own contribution, that KDFC does not need to replace him.

#### Staff

3.06 In recruiting staff, KDFC is able to choose among the best of the students graduating each year and usually recruits five such graduates annually. New staff undergo a three-month orientation program and are then given rotational assignments of up to two years in various departments. KDFC broadens the experience of selected members of its staff (and provides a useful employment incentive) by sending them to appropriate training courses overseas. As of December 31, 1972, professional staff (excluding senior management) numbered 50. The management regularly reviews the staff salary structure to ensure that it remains competitive. Staff turnover in KDFC has been minimal.

#### Organization

3.07 KDFC's organization structure (See Chart) has remained largely unchanged since the corporation's establishment. There are four functional departments: Administration, Operations, Planning and Research, and Investment Appraisal. Each is headed by a manager, reporting to one of the Vice Presidents. The organization structure has served KDFC reasonably well since its inception. However, increasing volume and diversity of KDFC's business have caused some strains, partly because of an apparent shortage of engineering staff for more intensive project supervision. As a first step, the senior management has constituted the four Departmental Managers a committee to review the present structure, its strengths and weaknesses, and to make recommendations. Decisions are likely to be taken and implemented during 1973.

#### Policies

3.08 KDFC's Statement of Operational Policies, which has remained unchanged since 1968, is given in Annex 4. KDFC has followed the Statement strictly and no significant change in it is proposed by KDFC, nor is one necessary for the present.

#### Procedures

3.09 Project appraisal. With the exceptions noted in paragraphs 3.10 and 3.11 below, the standard of KDFC's project appraisal work is very satisfactory. Once a sponsor, seeking KDFC's assistance, has submitted audited financial statements, his application is normally processed in two

to three months. In view of the thoroughness with which the technical, marketing and financial aspects of a project are evaluated by KDFC, there appears to be little scope for reducing this time span, although it does sometimes place KDFC at a competitive disadvantage vis-a-vis other financial institutions that make lending decisions mainly on an assessment of collateral security. Notwithstanding the relative slowness of KDFC, its appraisals in the Korean context are highly thought of and its appraisal reports are even followed as a model by one or two of the foreign commercial banks.

3.10 In order to strengthen its appraisal work further, recent Bank missions have suggested to KDFC that it evaluate projects in greater depth as distinct from an appraisal of client firms. In other words, appraisals should make a sharper distinction between new and sunk investments and projections should extend over the expected life of a project in preference to the current practice of covering a period of 3 to 5 years. For expansion projects, in particular, KDFC has begun to adopt this approach, and future appraisal reports should reflect it. The approach could also lay a basis for KDFC to become more flexible in undertaking projects that are economically and financially attractive but are sponsored by financially weak firms.

3.11 One aspect of its project appraisal work that is the subject of a continuing dialogue between KDFC and the Bank is the economic analysis of projects. Both the Bank and KDFC have the same objective: improvement. KDFC has experimented with the use of such partial measures of economic attractiveness as earnings and savings of foreign exchange, employment generation and, in some instances, calculation of an effective rate of protection; but it has not yet found a methodology that enables it to establish prospective rates of economic return on projects under appraisal.

3.12 During 1972, KDFC collaborated with a Bank mission in an intensive effort to establish, by a detailed study of a sample of KDFC's projects, KDFC's developmental impact in general, and the overall economic rate of return on the projects it had financed. The study led to the conclusion that the overall economic rate of return on such projects was unlikely to be less than 25%. The average masks a small minority of projects that have unsatisfactory rates of economic return, and an important purpose of the continuing search for a satisfactory methodology is to enable KDFC to identify economically unsatisfactory projects (which may appear financially attractive) in the appraisal process. KDFC continues to collaborate closely with the Bank and has undertaken during negotiations to engage a senior economist with a view to improving its work on economic appraisal of projects.

3.13 Supervision. The responsibility for project supervision (as well as for procurement and disbursement) rests with the Operations Department which has five two-man teams to handle the work. Recently this Department has met some problems. First, there is a staff constraint, as there has been relatively little expansion in this Department, while between 1970 and 1972 the number of loans under supervision has doubled. Moreover, the Department has no engineers of its own and has had, perforce, to rely on the engineering

staff from the Appraisal Department, depending on their availability. This has made close technical supervision of projects particularly those under construction difficult. A second problem is inaccurate and infrequent reporting by clients on project progress, operational and financial results, which makes timely detection of potential problems difficult.

3.14 Bank missions have commented on these deficiencies in project supervision and KDFC is taking steps to remedy them. Some of them will come within the purview of the committee referred to in paragraph 3.07. KDFC has already decided to arrange for each of its clients to be visited regularly and more frequently than in the past. As in the past, problem clients will receive more attention than others. KDFC advised the Bank during negotiations of its intention to strengthen the Supervision Department by engaging two experienced engineers as soon as possible.

3.15 Procurement and disbursement. Procurement under foreign currency loans is arranged by using bidding procedures laid down by KDFC for its clients. Bidding invitations are sent to most of the embassies in Korea as well as to the Korean Embassy in Washington. Normally a minimum of three bids is required from which the client makes his selection subject to KDFC's approval. In the case of local procurement, KDFC essentially relies on the judgment and self-interest of its clients, but applies its own checks. Given the general competence and increasing experience of KDFC's staff in checking clients' selections, its procurement procedures ensure that the goods purchased are appropriate and reasonably priced.

3.16 For disbursements of foreign currencies, KDFC reimburses after it has examined and satisfied itself on the relevant documentation including letters of credit, bills of lading and procurement contracts. In the disbursement of local currency, KDFC waits until the client has put in his own funds and construction is approaching completion. It then satisfies itself by a combination of physical inspection and examination of related documents. By these arrangements KDFC ensures that its interests are adequately protected.

#### Profitability and Financial Position

3.17 Terms of financing. The authority to determine KDFC's lending rates rests with its Board which reviews the corporation's rate structure from time to time, taking into account the general level of interest rates in Korea, competition, the cost of capital and KDFC's profitability objectives. When the Government decreed a new rate structure for Government financial institutions in August 1972, reducing the term-lending rate for domestic currency from 19% to 15.5%, KDFC decided to fall in line by bringing its rate on new commitments down to 15.5%. Following the example of other lenders, the new rate was subsequently (January 1973) extended by KDFC to the loans outstanding prior to August 1972 as well. The continuing adequacy in real terms of the rate of 15.5% will largely depend on the outcome of the Government's efforts to contain inflation within the rate of 3% per annum (paragraph 2.21).

3.18 KDFC has maintained from its inception an interest rate of 10% per annum on its foreign currency loans, with the borrower bearing the foreign exchange risk. Competition may force KDFC to reduce that rate. MIB has already announced its intention to relend the proceeds of its latest loan from ADB at 9.5%. Foreign commercial banks, which are expanding their business in Korea, were able before the recent monetary disturbances to make US dollar funds available for 5 to 7 years at an interest rate of around 8%, (subject to a withholding tax of 20%). The rate is reviewed by the foreign banks at six-monthly intervals. (The real cost has often been higher than the nominal interest rate, because those banks sometimes require compensating balances). In the past two years, changes in currency parities have been costly (in Won terms) to a number of KDFC's borrowers whose debts were incurred in such strong currencies as the Yen and the Deutsche Mark. Given the Government's announced intention to hold, if possible, a parity of W400 to US\$1, the US dollars available from foreign commercial banks appear to Korean borrowers to carry a lower exchange risk than the currencies made available to them by KDFC from its Bank loans. On the other hand, current demand for long-term capital is high. KDFC is again reviewing its foreign currency lending rate. Whatever its immediate decision, downward pressure on its relending spread, and on its profitability, is likely in the medium-term.

3.19 Profitability. Annex 5 shows KDFC's audited income statements for the years 1969-1972. For the last three years they are summarized and analyzed below:

	(Won Million)		
	1970	1971	1972
Total income	1,099	1,567	2,214
(of which income from loans)	(567)	(1,175)	(1,754)
Financial expenses	235	531	929
Administration expenses	198	263	335
Provisions for bad debts	63	110	161
Profit before taxes	603	663	789
Taxes	-	12	100
Net profit	603	651	689
Earnings per share (Won)	2,068	2,029	1,951
Dividends (%)	10	10	10
Pay-out ratio (%)	24.6	25.1	26.1
Net profit/Average net worth (%)	22.8	20.7	18.9
Administrative expenses/Average total assets (%)	3.0	2.4	1.7
Profit before interest, tax, and provisions/Average total assets (%)	13.7	12.0	11.0

3.20 In 1972, KDFC's net profit was W689 million compared with W603 million in 1970. The declining trend over the period is explained by a number

of factors. Most importantly, interest income on deposits declined from W516 million in 1970 to W303 million in 1972, despite an increase in the volume of time deposits from W1.2 billion in 1970 to W1.8 billion in 1972. The decline in that income reflected the downward trend brought about by Government policy in the interest rate structure as a whole. Substantial taxes became payable for the first time in 1972 and KDFC's won lending rate, which was 20% throughout 1970 and 1971 was reduced to 19% in January 1972 and 15.5% in August 1972. Finally, provisions for bad debts have increased, with the growth of the portfolio, from W63 million in 1970 to W161 million in 1972.

3.21 KDFC's net profit in relation to net worth has declined from 22.8% in 1970 through 20.7% in 1971 to 18.9% in 1972. The declining trend reflects the factors mentioned in paragraph 3.20 above, as well as the steady growth of share capital and reserves throughout the period. Administrative expenses increased in absolute terms from W198 million in 1970 to W335 million in 1972, mainly because of the expansion of staff and of higher rates of compensation made necessary by inflation and the generally rising standard of living; but as a proportion of average total assets, administrative expenses continued to decline satisfactorily from 3.0% in 1970 to 1.7% in 1972. KDFC has paid a dividend of 20% (10% cash, 10% stock) each year since 1969, and the pay-out ratio has remained around 25%. Overall, KDFC has a satisfactory record of profitability in the Korean context, although the real return to domestic shareholders has been vitiated by inflation, and that to foreign shareholders additionally by the decline in the parity of the won with respect to most other currencies.

3.22 Financial position. Annex 6 shows KDFC's audited balance sheets from 1969 to 1972. The loans and investment portfolio (net of provisions) increased from W5.7 billion in 1970 to W11.5 billion in 1971 and to W17.2 billion in 1972. The apparent growth rate of 119% in 1971 and 50% in 1972 reflects in part the translation of foreign exchange long-term debts and loans receivable at the selling rates of the respective foreign exchange as of December 31, in each year. The won-dollar exchange rate declined from W317 in 1970 to about W400 in 1972. Paid-in share capital was increased from W1.485 billion in 1970 to W1.8 billion in 1972, by the issue of stock dividends. Reserves and retained earnings increased from W1.06 billion in 1970 to W2.1 billion (almost twice the principal amount of the portfolio affected by arrears of more than three months), in 1972. Cumulative provisions at the end of 1972 amounted to W363.4 million, compared with estimated probable write-offs of W80 million. Total debt to equity increased from 1.1:1 in 1969 to 4.2:1 in 1972. Under the definition in the Bank Loan Agreements, the ratio moved from 0.2:1 in 1969 to 2.4:1 at the end of 1972. KDFC's liquidity has always been high; from 1969 to 1972, on the basis of year-end figures, current assets have always exceeded W1.5 billion, while current liabilities have never been higher than W300 million. Debt service cover, at 2.1 at the end of 1972, is satisfactory.

3.23 Quality of Portfolio. Annex 7 gives particulars of loans in arrears. As of December 31, 1972, six of KDFC's 84 clients were in arrears of principal and/or interest for more than three months, as summarized below:

<u>Age of Arrears</u>	<u>No. of Clients</u>	<u>Principal Outstanding</u> (US\$000)	<u>Principal &amp; Interest in Arrears</u> (US\$000)
3-12 months	2	631	150
1-2 years	3	1,840	705
2-3 years	<u>1</u>	<u>291</u>	<u>160</u>
Total	<u>6</u>	<u>2,762</u>	<u>1,015</u>

The principal sum affected by arrears amounts to about 6.4% of KDFC's total loan portfolio, while arrears of principal and interest represent 1.1% and 1.3% respectively of the loan portfolio. The remedial action KDFC has taken or plans to take, the August 1972 economic measures taken by the Government, (see paragraph 2.21), inter alia, to relieve the debt service burden on industry, and the recent upturn in the Korean economy together make it unlikely that KDFC will have to write-off more than \$200,000 equivalent (W80 million) with respect to loans in arrears at the end of 1972. As stated above, KDFC's provisions at the end of 1972 amounted to W363.4 million (\$900,000 equivalent). KDFC's portfolio, which is reasonably well diversified (see paragraphs 4.13 et. seq.), is sound and its financial position is strong.

#### Audit

3.24 KDFC's accounts have been audited from inception by Arthur Young & Company whose reports have always been unqualified.

#### Market Quotation

3.25 At the end of 1972 the book value of KDFC's shares (par value W5,000 per share) was W10,850 or 217% of par. The shares have been quoted on the Korea Stock Exchange since May 1969, but transactions have been few. Prices reported by the Korea Stock Exchange have followed a consistent pattern through 1971 and 1972, moving from a substantial discount on par immediately after the declaration of a dividend to about par as the next dividend approached. Following the Government's economic reforms of August 1972, including a general lowering of interest rates, the stock market became a more attractive outlet for savings than in the past, and the general share price index shows a rise of 53% between June and December 1972. By contrast the quoted price of KDFC's shares rose over the same period by 125% to W10,230.

#### Relations with the Government and the Business Community

3.26 KDFC has deliberately sought to maintain, vis-a-vis the Government, a "low profile". While it takes care to operate within the framework of Government's general policies and guidelines and to be sensitive to priorities set by the Government, it has not sought actively to influence Government policy. KDFC maintains close touch with and gives full information on its activities to the Ministry of Finance, the Economic Planning Board and



the Bank of Korea. Sometimes KDFC's management has been subject to various pressures, including pressures from the Government, but they do not appear to have had a significant effect on KDFC's operations or its portfolio. An important safeguard of KDFC's relative independence is the personal prestige and standing of its Chairman, Mr. C. S. Hong and its President, Mr. C. H. Kim.

3.27 KDFC's standing in business and financial circles is high. Its staff has an enviable reputation for professional competence and its Board includes a number of senior, influential leaders of the business and financial community. As KDFC has gained experience and maturity, it has shown itself increasingly willing to consider financing projects brought to it by relatively new entrepreneurs outside the "establishment" and for activities (e.g. deep-sea fishing and marine transport) into which Korea's large-scale entry is recent. This broadening of KDFC's clientele, which is likely to continue, is important to KDFC's future relations with the business community, and ultimately with the Government.

#### IV. RESOURCE MOBILIZATION AND ALLOCATION

##### Direct Resource Mobilization

4.01 The \$5 million equivalent initial share capital of KDFC was divided approximately 60:40 between domestic and foreign shareholders. Supplementary resources were made available in 1968 in the form of a subordinated loan from the Government in an amount of \$7.5 million equivalent. Foreign exchange loans of \$5 million each were made (1968) by the Bank and US AID. At the end of 1972, KDFC's domestic currency resources represented by share capital had been increased from the original amount of W1.35 billion to W1.8 billion by stock dividends; and accumulated reserves and retained earnings had added W2.1 billion. Additional foreign currency resources had been mobilized by two more Bank loans (in 1969 and 1971) totaling \$50 million and a "tied" loan from Caterpillar (Far East) Ltd. of \$1 million, while the original US AID loan of \$5 million had been reduced to \$3 million.

4.02 KDFC has so far raised no new won resources through borrowings. Prima facie, KDFC has not needed more won than it had; liquid won resources have always been at least W1.5 billion (\$3.75 million equivalent at the current rate of exchange) at year-end. At least until August 1972 the prevailing interest rate structure in Korea made it impossible for KDFC to raise money by borrowing on terms that would enable it to relend at other than a substantial loss. The Government has given higher priority to lowering costs (and enhancing the competitiveness in export markets) of borrowers than to maintaining the capacity of financial institutions to mobilize resources at a cost sufficiently below the lending rate to permit self-sustaining growth.

4.03 Following the Government's economic measures of August 1972, a possibility has arisen for the first time that KDFC might be able to raise won funds by borrowings at a cost that would enable it to relend them profitably. Given the present stage of development of the bond market, however, it is unlikely that funds could be borrowed for a term longer than two years. Even such short-term money might be used, by blending with equity funds to increase the volume of won financing when necessary. KDFC had earlier planned to raise additional capital by a rights issue of shares in 1972. Recession in the Korean economy that year, coupled with a strain on the cash resources of important potential investors, led KDFC to defer the proposed issue until 1973. The issue, for W1 billion, is now planned to be made in September 1973. With the recent upturn in the Korean economy, the changes in the interest rate structure already referred to and other favorable developments, the prospects for the success of the issue are good.

4.04 In mobilizing additional foreign exchange resources, KDFC has relied almost exclusively on the Bank. It has approached or sought the Government's approval to approach other sources of "official" funds, Asian Development Bank (ADB) and Kreditanstalt fur Wiederaufbau (KfW), but without success. Both ADB and KfW are already lending to other financial institutions in Korea, and at least until recently the Government has discouraged such approaches by KDFC. It has seen no merit in having, for instance, the Bank and ADB supporting the same development banks unless, by supporting more than one development bank, the Bank or ADB were able to increase total lending in Korea.

4.05 Early in 1973 the Government modified its earlier attitude, to the extent of encouraging KDFC to resume contact with KfW. It is on the basis of the approach KDFC then made to KfW that it hopes for a KfW loan of \$6 million equivalent.

4.06 There appears to be a possibility that KDFC could begin to supplement its foreign exchange resources by borrowing from foreign commercial markets. KDFC's financial and operational record is now sufficiently long and satisfactory to open up such a possibility. In view of this, KDFC has approached IFC for assistance in raising long-term funds in the foreign commercial market, and IFC is willing to give such assistance when market conditions are favorable. In addition, KDFC proposes to approach foreign commercial banks directly for relatively short-term funds, which it would blend with the proposed Bank loan. The Government has also agreed that KDFC shall in future be free to approach ADB and KfW for funds, with the Government's support. KDFC and the Government have agreed that it should be possible for KDFC to obtain sizeable funds from sources other than the Bank before the proposed loan is fully committed.

#### Indirect Resource Mobilization

4.07 Within the constraints obtaining, KDFC has made a relatively small but worthwhile indirect contribution to resource mobilization through pressure it has applied to its borrowers to increase equity. In a sample of 30 KDFC clients, covering most of its borrowers during the first two years

of its operations, conditions relating to share capital increases were imposed by KDFC in 17 cases. In all but two of the 17 cases, the conditions were fulfilled. In three other cases, the fulfillment was only formal and did not represent a genuine commitment of resources. In the remaining 12 cases, resources available to the firms were increased, mainly through raising additional funds from existing shareholders. The genuine increase in those 12 cases was about W1 billion (\$2.5 million equivalent at the current rate of exchange). KDFC's direct commitments to the full sample of 30 borrowers were about W4.8 billion.

4.08 However, KDFC's most important indirect contribution to mobilizing resources so far has been the part it played in establishing, jointly with IFC, the Korea Investment and Finance Corporation (KIFC) in which KDFC is the largest single, (although minority), shareholder. KIFC has been set up to operate initially in the short-term (i.e. up to 90 days) credit market in Korea, and in that field it began operations, which are expanding rapidly, in May 1972. It will later extend its operations into longer-term finance including, jointly with KDFC and other institutions, the underwriting of securities including share issues.

#### Resource Allocation

4.09 General pattern. KDFC opened for business in March 1968. At the end of its first five years of operations it is possible to identify a number of elements in the pattern of resource allocation it has adopted.

4.10 By volume of operations, KDFC's main function has been to provide medium- and long-term loans to borrowers needing assistance in the range of \$200,000 to \$2 million equivalent, for the import of capital goods and technology. About one half, by amount, of KDFC's foreign exchange loans have gone to member-firms of the Federation of Korean Industries (FKI), representing mainly strong, well-established industrial companies. Among non-members of the FKI, to whom KDFC has made loans, appear to be some who are relatively new entrants into the growing entrepreneurial class in Korea and who are not financially as strong as the leading entrepreneurs. KDFC's financing has gone to a widely representative range of productive subsectors, not all manufacturing. In 1971 and 1972 KDFC methodically built up its portfolio of deep-sea fishing and marine transport projects. Its early heavy exposure in the textiles industry has now been proportionately reduced. KDFC's principal criteria in evaluating a project have been the quality of management and financial. Specifically, it did not until recently (see paragraph 3.10) employ incremental analysis in its appraisal work; its forecasting was too conservative in making allowance for expected increases in costs without taking into account likely increases in revenue; and it concerned itself more with establishing the debt service capacity of its client than with estimating the most likely financial and economic returns on the project under appraisal. However, in spite of these short-comings there is evidence which strongly suggests that the overall economic rate of return on projects financed by KDFC is upwards of 25% (see paragraphs 3.11 and 3.12).

4.11 KDFC's won financing has been in the form of equity investments, loans for up to 5 years, and investments in convertible debentures (see paragraph 4.19 below). A number of factors have combined to restrict KDFC's won financing, particularly in 1971 and 1972. In those years they included a low level of demand for loans (medium- and long-term, as distinct from short-term) which KDFC was willing to supply; the fact that the sponsor's contribution to the cost of the project was usually in won, which limited the scope for KDFC's contribution to approximately the amount of foreign exchange financing required; and KDFC's financing of fisheries and marine transport projects which required only a small proportion of won.

#### Characteristics of KDFC's Financing

4.12 Volume of operations. A summary of KDFC's operations as of December 31, 1972 is given in Annex 8. Approvals grew from W1.1 billion in 1968 (the first year of operation) to W6.3 billion in 1970. In 1971, as a result of political and economic circumstances, there was a 34% drop in approvals compared with 1970. The position changed radically in 1972, when the level of approvals at W8.7 billion was more than double the 1971 figure. Cumulative approvals since inception through December 31, 1972, amount to W21.6 billion in loans and W1.8 billion in equity investments (including convertible debentures) a total of about W23.4 billion (\$58 million equivalent at current rate of exchange).

4.13 Despite the impressive rate of growth in KDFC's operations, KDFC has not yet reached a size that would enable it to play more than a relatively small role in the country's industrial financing. This becomes evident by relating KDFC's 1971 disbursement figure of \$13.7 million equivalent to the estimated gross domestic investment in manufacturing and mining of \$379 million equivalent <sup>1/</sup> - a share of 2.8%. <sup>2/</sup> Although KDFC's quantitative contribution in resource allocation for the country's industrial development is modest and may never become significant in relation to total investment, its qualitative contribution is important in view of the good quality of its portfolio (paragraph 3.23) and of its continuing efforts to raise its operational standards. Other aspects of KDFC's operations are discussed below.

4.14 Sectoral distribution. The sectoral distribution of KDFC's portfolio has changed noticeably since the middle of 1971. At that time 30% of KDFC's portfolio was committed to the textile sector; but in the next 18 months KDFC identified two promising relatively new areas for investment: fisheries and marine transport. In 1972, 36.6% of its approvals went to fisheries and 31.4% to marine transport. In terms of total approvals, the fisheries sector

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<sup>1/</sup> Source for the national investment figure: EPB.

<sup>2/</sup> The share of 2.8% by KDFC overstates the position somewhat in that KDFC's disbursements for 1971 included transportation and fisheries projects whereas the national figure was for manufacturing and mining only. KDFC's 1971 share in disbursements for manufacturing and mining only was probably about 2%.

leads with 17.7%, followed by textiles 16.8% and marine transport 15.8% (Annex 9). Both the new sectors, with their potential for foreign exchange earnings and savings, are of considerable economic importance to Korea and their development is being actively encouraged by the Government.

4.15 The greater part of KDFC's portfolio, as a matter of policy, is concentrated in export-oriented projects. KDFC estimates that in 1972, net foreign exchange earnings achieved by its clients amounted to \$21 million, in addition to a substantial net saving in foreign exchange through import substitution. No estimate is available, however, of the proportion of such earnings and savings attributable to the projects financed by KDFC, since the bulk of KDFC investments are for expansions.

4.16 Loan composition. As of December 31, 1972, only about 14% of KDFC's outstanding portfolio represented won financing. The increase in the share of foreign exchange financing has been progressive. On the basis of approvals, won financing had dropped from 32% of the total investments approved in 1969 to 6% in 1972.

4.17 Geographic distribution. KDFC's portfolio is reasonably well dispersed covering the main industrial regions of Korea (Annex 10). However, in line with the national pattern of industrial distribution, most of its investments are concentrated in the Seoul (57%) and Pusan (13%) areas. The Government is beginning to encourage a wider dispersal of industries; (its action played a part in the recent relocation of two KDFC-financed projects to sites in less-developed regions); and KDFC is likely to be responsive to the Government's policy.

4.18 Size of loans and maturities. The average size of KDFC's loans is growing, with approximately 47% of its loans by amount in the last two years being for W500 million or more, compared with 40% on a cumulative basis (Annex 10). This trend reflects the changing sectoral composition of KDFC's lending and is likely to continue because of recent currency changes and the Government's encouragement of capital-intensive intermediate and capital goods industries. KDFC's policy statement (Annex 4) however restricts the corporation's maximum exposure in a single enterprise to 15% of KDFC's net worth plus the Government subordinated loan, or as of December 31, 1972, to \$2.2 million equivalent.

4.19 Only a small portion (9.4%) of KDFC's total portfolio (by amount) has loan maturities of up to 5 years, all of them won loans. At the end of 1972, 42.4% of the total portfolio had loan maturities of 8-9 years while 33.8% of the total carried loan maturities of 10-12 years with 73.7% of the loan amounts approved in 1972 carrying maturities in the higher range (Annex 10). KDFC's ability to allow such long maturity loans gives it a competitive edge over the foreign commercial banks operating in Korea and offsets to some extent the advantage these banks have over KDFC in charging lower interest rates on their foreign currency loans and supplying them in US dollars (paragraph 3.18).

4.20 Equity investments and debenture financing. A summary of KDFC's investments (including convertible debenture financing) is given in Annex 11.

By year-end 1972, KDFC had made 4 equity investments totaling W616 million, including an investment of W288 million in KIFC. In addition, it had made 8 investments in convertible debentures amounting to W1.2 billion and had provided one guarantee of W30 million. The total represents 8.5% of KDFC's loan approvals and 74% of its won lending. KDFC has in the past tried to increase its equity investments but has been thwarted by an under-developed securities market and the resistance of closely-held family business enterprises to "going public". However, under the combined influence of the Public Corporation Inducement Law (paragraph 2.22) and the proposed reform of the Korea Stock Exchange (paragraph 2.23), KDFC's opportunities to expand its equity portfolio should increase.

4.21 To date KDFC has not engaged in any underwriting. It may in future do so as a member of an underwriting syndicate set up to assist companies offering their stocks to public under the Public Corporation Inducement Law.

## V. KDFC - PROSPECTS

### General Outlook<sup>1/</sup>

5.01 The prospects for continued industrial growth in Korea appear to be favorable. In the current Five-Year Plan, 1972-76, exports are projected to increase at an annual rate of 24%. The main growth will be in manufactured exports which are expected to increase at a rate of 25.5% a year. The growth of the manufacturing and mining sector will be sustained by a high rate of industrial investment; it is expected to increase at an average annual rate somewhat higher than 20% during the Third-Plan Period, rising from W149 billion in 1971 to an estimated W384 billion in 1976. The share of manufacturing and mining in total investment at the end of the Third-Plan Period will be about 28%, increasing from 23% at the end of the Second-Plan Period in 1971. There will, in addition, be a qualitative change in manufacturing investment which will be directed more towards such heavy industries as basic metals, engineering and chemicals than in the past. This strategy would imply a rapidly increasing demand for term finance.

### KDFC's Business Forecasts

5.02 KDFC's operational projections for the period 1973-77 are given in Annex 12, and forecast commitments are summarized below:

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<sup>1/</sup> The figures given in this paragraph which are in 1970 constant prices, represent the estimates made by the latest Economic Mission, and are based on the data given in the current Five-Year Plan.

	<u>Domestic Currency</u> (Won million)		<u>Foreign</u> <u>Currency</u> (US\$000)	<u>Total</u> (US\$000 equivalent)
	<u>Loans</u>	<u>Investments</u>		
1972 (actual)	320	200	12,490	13,790
1973	1,570	200	27,000	31,425
1974	1,750	250	23,000	28,000
1975	2,000	300	25,000	30,750
1976	2,200	300	28,000	34,250
1977	<u>2,550</u>	<u>350</u>	<u>30,000</u>	<u>37,250</u>
(Total 1973-77)	<u>10,070</u>	<u>1,400</u>	<u>133,000</u>	<u>161,675</u>

KDFC's foreign exchange commitments in 1970 had risen to \$14.5 million. With the comparative recession of 1971 (which continued through most of 1972) foreign exchange commitments for 1971 slumped to \$7 million and in 1972 rose only to \$12.5 million. However, the revival of investment demand in the latter part of 1972 resulted in an unusual bunching of approvals at year-end (\$6.6 million) which became commitments in early 1973. The bunching is reflected in the table above by the disparity between total commitments in 1972 of \$13.8 million equivalent and estimated total commitments in 1973 of \$31.4 million equivalent. In other words, KDFC had completed all the administrative work, except the signing of the loan agreements with its clients (and had obtained the Bank's authority to withdraw from the Loan Account for the projects concerned), for commitments amounting to \$20.4 million (\$13.8 million plus \$6.6 million) by December 31, 1972. Forecast commitments of \$31.4 million for 1973 would be achieved by KDFC's processing additional commitments in that year of only \$24.8 million (\$31.4 million minus \$6.6 million). The bunching of commitments is reflected also in the high rate of disbursements in 1973 projected in Annex 15.

5.03 From 1974 through 1977 KDFC's commitments are projected at an annual average rate of growth of 11%. At that rate of growth they are considerably below the projected 20% annual average rate of increase in total manufacturing and mining investment in the Third Plan Period, and are conservative. KDFC's forecast of its business does not therefore appear to be based on the Plan projections but on its assessment of resources, especially of foreign exchange, likely to be available to it. KDFC should be able to exceed its forecast if it succeeds in raising additional capital from sources other than the Bank.

5.04 Another feature of KDFC's projected commitments is the increase, in absolute terms, in its domestic currency financing from W4,237 million in 1968-1972 to W11,470 in 1973-1977. However, won commitments as a proportion of the total are likely to decline from 22% in the five-year period ending 1972 to 18% in 1973-1977, reflecting the increasing proportion of KDFC's resources represented by foreign loans.

#### Resource Requirements

5.05 On the basis of commitment figures given in paragraph 5.02, KDFC will require a total of \$161.7 million equivalent during 1973-1977 of

which \$133 million will be needed in foreign exchange and \$28.7 million equivalent in local currency. As of January 1, 1973 it had \$16.1 million equivalent available in uncommitted funds leaving a resource gap of \$145.6 million. In the shorter period of two years (1973-1974) its total commitments are projected to be \$59.4 million equivalent, the financing of which is discussed in the following paragraphs (paragraphs 5.06-5.08).

5.06 Foreign currency. KDFC's uncommitted foreign exchange resources amounted as of January 1, 1973 to \$10 million, of which the outstanding balance of KDFC's Third Bank Loan, 735-KO, of \$9.1 million is likely to be fully committed around May 1973. For the two-year period from full commitment of the Third Bank Loan, KDFC would require for financing imports (including initial stocks of raw material) additional foreign exchange resources of about \$50 million of which it hopes to raise \$6 million from KfW. This leaves a shortfall of about \$44 million. A fourth World Bank loan of \$40 million would meet the greater part of KDFC's requirements for the two-year period ending mid-1975 and is recommended.

5.07 So far the Bank has been almost the sole source of KDFC's foreign exchange resources, and as of December 31, 1972, Bank funds accounted for about 80% of KDFC's outstanding portfolio. KDFC's reliance on the Bank is excessive and should be reduced. As noted in paragraph 4.06 above, KDFC and the Government have agreed to take steps for diversifying KDFC's foreign exchange resources in order to reduce its reliance on the Bank.

5.08 Local currency. KDFC's total commitments in domestic currency between 1973-74 are estimated to be W3,770 million. As of January 1, 1973, KDFC had uncommitted won resources of W2,444 million. Those resources together with collections (W1,142 million), prospective internal cash generation (W2,051 million), and the planned share capital increase in 1973 (W1,020 million), should enable KDFC to undertake the commitments it has projected for the two years.

#### Projected Financial Results

5.09 Projected balance sheets through 1977 are given in Annex 13. On the basis of its forecast volume of business, KDFC's total assets should increase from W20.8 billion in 1973 to W62.9 billion in 1977. The loan and equity portfolio will increase, after deductions for provisions, from W17.2 billion in 1972 to about W58 billion in 1977. Provisions for doubtful debts will be maintained at 2% of outstanding portfolio. In addition, reserves will amount to 7.3% and 7.7% of outstanding portfolio as at the end of 1975 and 1977 respectively. The ratio of total long-term debt to equity is projected to increase from 4.2:1 in 1972 to 6.4:1 in 1975 but will decline to 5.8:1 in 1977. The debt/equity ratio, as defined in the Bank Loan Agreement, will increase from 2.4:1 in 1972 to 4.6:1 in 1975 and will return to the same level in 1977. These ratios take into account the planned increase in paid-in capital in 1973 and 1976. In KDFC's judgment, the largest share issue that could be offered successfully in 1973 is W1 billion, which would increase the existing paid-in capital by 50%. It has, therefore, asked for an increase in the limit the Bank sets on its debt/ equity ratio. In view of the high



quality of KDFC's management and staff, the soundness of its portfolio and its financial and operational performance, the Bank would be justified in increasing KDFC's present contractual limit of 3:1 to 4.5:1 with debt and equity as defined in the present Loan Agreements. If the debt/equity ratio were not increased, it would unnecessarily constrain KDFC's operations and adversely affect its profitability, and perhaps therefore its ability to raise additional equity in later years. If KDFC's loan portfolio grows more quickly than projected, KDFC may have to advance to 1975 the capital increase it presently projects for 1976.

5.10 Projected income statements for the period 1973-1977 are given in Annex 14. KDFC's profits after tax are expected to grow from W689 million in 1972 to W1,226 million in 1977. Net profits as a percentage of paid-in capital will, however, fall from 38.1% in 1972 to 27.2% in 1977. KDFC's net profit as a percentage of equity will also decline from 18.9% in 1972 to 14.2% in 1977. This return should still be adequate to enable KDFC to meet its financial objectives. The declines reflect the proposed increases in share capital and assumed diminishing spreads on local and foreign currency loans. The reduction in the won lending rate of 15.5% in August 1972 and the projected decrease in both won and foreign currency rates of interest - in anticipation of further general reductions in Korea - will reduce profit before interest, provisions and tax as a percentage of average total assets from 11.0% in 1972 to around 9% in 1975 and 1977. During the same period, profits before tax as a percentage of average total assets will drop from 4.6% to 2.7%. KDFC intends to pay a cash dividend of 12% per annum in the future compared with 10% in cash and 10% stock in the past. The pay-out ratio will range from 26% in 1972 to a high of 47% in 1974 but will decline to 44% in 1977.

5.11 Projected cash flow statements for the years 1972-77 are given in Annex 15. These and the forecast income statements indicate a declining debt service cover ratio from 2.1 in 1972 to 1.2 in 1977. KDFC's debt service cover should remain satisfactory even beyond 1977, for although its foreign currency repayments will equal its collections, its won collections will always substantially exceed repayments on the Government loan which begins in 1977. (As an indication of the magnitude, average annual collections are estimated to be W779 million during 1972-77 against annual repayment of W68 million commencing from 1977.)

5.12 A schedule of estimated disbursement of the proposed Bank loan is given in Annex 16.

## VI. CONCLUSIONS AND RECOMMENDATIONS

6.01 KDFC began operations in 1968. It has always been well-managed and in the past five years it has built up a competent, hard-working staff, a good organization, and a sound portfolio mainly in the manufacturing sector but including relatively important investments in deep-sea fishing and marine transport. Its operating procedures are generally satisfactory, but there is room for improvement in its economic assessment and in its supervision of projects.

6.02 KDFC's financial performance and position remain satisfactory. Profitability, although declining, is and is likely to remain adequate. Its liquidity, debt/equity ratio and debt service capacity are sound. Provisions are adequate to cover any likely losses.

6.03 KDFC continues to be creditworthy, and is suitable for a fourth Bank loan. In the two-year period beginning June 1, 1973 (when the third Bank loan is expected to be fully committed), KDFC will need around \$50 million for financing imports. Of that amount it hopes to raise \$6 million in the form of a loan from KfW. A Bank loan of US\$40 million would fill the greater part of the remaining gap.

6.04 For the third Bank loan the free limit was \$500,000, with an aggregate free limit of 25% of the loan. Of the 27 projects totaling \$20.9 million for which the Bank had authorized withdrawals as of December 31, 1972, 12 projects amounting to \$15 million, or about 75% of the total amount, have been reviewed by the Bank. In view of the high quality of KDFC's management, the competence of its staff and the good quality of its appraisal work, an increase in the free limit to \$750,000 is proposed, with an aggregate free limit of 25% of the proposed Bank loan. It is estimated, in the light of projects in KDFC's pipeline and the rising trend in the average size of its foreign exchange loans (likely to be accelerated by recent changes in exchange parities), that even with an increased free limit of \$750,000 about 75% (by amount) of the loans using Bank funds would go to projects still requiring prior approval of the Bank.

6.05 KDFC has requested an increase in the debt/equity ratio (as defined in its current loan agreements with the Bank) of 3:1. For the reasons given in paragraph 5.09 above, an increase in the contractual limit to 4.5:1 is justified and appropriate, and is recommended.

6.06 A Bank loan to KDFC of US\$40 million is recommended. The proposed loan should be on the terms and conditions, including the standard commitment charge, usual for development finance companies.

April 27, 1973

KOREA DEVELOPMENT FINANCE CORPORATION

Details of Interest Rate Changes by Banking  
Institutions as of August 4, 1972  
(Percent per annum)

<u>Commercial Banks</u>	<u>Old rate</u> <u>as of</u> <u>Jan. 17, 1972</u>	<u>New rate</u> <u>as of</u> <u>Aug. 4, 1972</u>
Loan rates:		
General loans (1 year)	19.0%	15.5%
Commercial paper discount:		
Rediscountable	18.0%	13.5%
Not rediscountable	19.0%	15.5%
Term loans:		
Up to 1 year	19.0%	15.5%
1-3 years	19.5%	16.0%
3-5 years	20.0%	16.5%
Machinery industry promotion loans:		
Equipment loans	12.0%	10.0%
Operating loans	18.0%	15.0%
Overdrafts	22.0%	17.5%
Call loans	16.0%	15.0%
Overdue loans	31.2%	25.0%
Deposit rates:		
Time deposits:		
3 months	7.8%	6.0%
6 months	11.4%	8.4%
12 months	16.8%	12.0%
24 months	17.4%	12.6%
Installment savings:	11.0% - 17%	7.8% - 12%

Bank of Korea

Loan rates:

Commercial bills:		
Prime bills rediscount	13.0%	9.0%
General bills rediscount	13.0%	11.0%
Commercial bill loans	17.0%	13.0%
Loans for agriculture & fishery projects	8.0%	6.0%
Loans for other bills	19.0%	14.0%
Currency stabilization bonds	17.0%	13.0%

<u>Korea Development Bank</u>	<u>Old rate</u> <u>as of</u> <u>Jan.17,1972</u>	<u>New rate</u> <u>as of</u> <u>Aug.4,1972</u>
Internal funds:		
Loans to general industry:		
Equipment loans:		
Less than 5 years	19.0%	15.5%
5 to 10 years	19.5%	16.0%
More than 10 years	20.0%	16.5%
Operating loans:		
Less than 1 year	19.0%	15.5%
1 to 3 years	19.5%	16.0%
3 to 5 years	20.0%	16.5%
Loans to key industries:		
Equipment loans	12.0%	10.0%
Operating loans	18.0%	15.5%
Government funds:		
Equipment loans	12.0%	10.0%
Operating loans	18.0%	15.5%
Revolving funds:		
Loans to general industry:		
Equipment loans	15.0%	15.0%
Operating loans	15.0%	15.0%
Loans to key industries:		
Equipment loans	12.0%	10.0%
Operating loans	14.0%	14.0%

	<u>Old rate</u> <u>as of</u> <u>Jan.17,1972</u>	<u>New rate</u> <u>as of</u> <u>Aug.4,1972</u>
<u>Medium Industry Bank</u>		
Banking funds:		
Small and medium industry loans	19.0%	15.5%
Equipment loans for small and medium industries	19.0%	16.5%
Cooperatives business fund loans	17.0%	15.5%
Government funds:		
Equipment loans	12.0%	10.0%
Cooperatives business fund loans	12.0%	12.0%
Operating loans	18.0%	15.5%
Loans for machine industry promotion:		
Equipment loans	12.0%	10.0%
Operating loans	18.0%	15.0%
Loans for military supply goods production	19.0%	
Loans on installment savings	19.0%	15.5%
General loans (1 year)	19.0%	15.5%
<u>Korea Development Finance Corporation</u>		
Medium- and long-term loans	19.0%	15.5%

Regional Projects Department  
Asia Regional Office  
March 23, 1973



KOREA DEVELOPMENT FINANCE CORPORATION

List of Shareholders as of December 31, 1972

<u>Private Corporations and Individuals</u>	<u>No. of Shares</u>	<u>Percentage of paid-up Capital</u>	<u>No. of Share- Holders</u>
Hankuk Glass Industry Company, Limited	8,993		
Ssang Yong Cement Company, Ltd.	8,632		
Chung, Jae Ho	8,630		
Bangrim Spinning Company, Ltd.	6,666		
Korea Nylon Company, Ltd.	5,333		
Hyundai Construction Company, Ltd.	5,333		
Chonbang Company, Ltd.	4,880		
Cho, Hong Jae	4,766		
Lucky Chemical Company, Ltd.	4,316		
Gold Star Company, Ltd.	4,314		
Young Poong Trading Company, Ltd.	3,600		
Korea Cement Manufacturing Company, Ltd.	3,177		
Korea Explosives Company, Ltd.	2,666		
Choi, Suck Whan	1,650		
Taesung Lumber Ind'l Company, Ltd.	1,600		
Chosun Silk Textile Co., Ltd.	1,600		
Jedong Industrial Company, Ltd.	1,588		
Shin, Duck Kyun	1,588		
Sam Yang Company, Ltd.	1,577		
Kyungbang Company, Ltd.	1,471		
Hong, Chai Sun	1,466		
Inchon Ironworks Company, Ltd.	1,439		
Hanil Synthetic Fiber Company, Ltd.	1,439		
Park, Soon Won	1,350		
Yoon, Byung Kang	1,336		
Ilshin Industrial Company, Ltd.	1,333		
Ilssin Industrial Company Ltd.	1,333		
Lee, Ki Sun	1,333		
Kim, Chin Hyung	1,113		
Kim, Young Jo	1,000		
217 Shareholders holding less than 1,000 shares each	22,280		
	<u>117,802</u>	<u>32.7</u>	<u>247</u>
<u>Commercial Banks</u>			
The Cho-Heung Bank	12,266		
The Hanil Bank	12,266		
The Commercial Bank of Korea	10,766		
Korea First Bank	9,766		
The Bank of Seoul	4,266		
	<u>49,330</u>	<u>13.7</u>	<u>5</u>

<u>Insurance Companies</u>	<u>No. of Shares</u>	<u>Percentage of Paid-up Capital</u>	<u>No. of Share- Holders</u>
Korea Reinsurance Corp.	13,333		
Dae Han Life Insurance Co., Ltd.	3,200		
Dong Bank Life Insurance Co., Ltd.	3,200		
Dae Han Educational Insurance Company, Limited	3,200		
Dong Yang Fire and Marine Insurance Company, Limited	2,800		
Shin Dong-A Fire and Marine Insurance Co., Ltd.	2,800		
Dae Han Fire and Marine Insurance Company, Limited.	2,800		
Kukje Fire and Marine Insurance Company, Limited	2,800		
Koryo Fire and Marine Insurance Company, Limited	2,800		
Haedong Fire and Marine Insurance Company, Limited	2,800		
An-kuk Fire and Marine Insurance Company, Limited	2,800		
The Eastern Fire and Marine Insurance Company, Limited	2,800		
The Korea Fire and Marine Insurance Company, Limited	2,573		
The First Life Insurance Co., Ltd.	800		
Koryo Life Insurance Co., Ltd.	36		
	<u>51,542</u>	<u>14.3</u>	<u>15</u>
<u>Foreign Shareholders</u>			
Bank of America	12,599	3.5	
First National City Overseas Invest Corp.	12,599	3.5	
The Industrial Bank of Japan, Ltd.	11,159	3.1	
The Bank of Tokyo, Ltd.	11,159	3.1	
United California Bank International	10,079	2.8	
Irving Int'l Financing Corp.	8,999	2.5	
Deutsche Bank, A.G.	8,999	2.5	
The Chartered Bank	7,200	2.0	
Bank of Montreal, Ltd.	7,200	2.0	
	<u>89,993</u>	<u>25.0</u>	<u>9</u>
International Finance Corp.	51,333	14.3	1
	<u>141,326</u>	<u>39.3</u>	<u>10</u>
Total	<u>360,000</u>	<u>100.0</u>	

Regional Projects Department  
Asia Regional Office  
March 23, 1973



KOREA DEVELOPMENT FINANCE CORPORATIONBoard of Directors

(Elected at the Shareholders' Meeting held February 1973)

NamePrincipal interestRepresenting Korean shareholders

Mr. Chai Sun Hong\*

Chairman, Korea Development Finance Corporation

Mr. Chin Hyung Kim\*

Representative Director-President, Korea Development Finance Corp.

Mr. Yong Wan Kim

President, Kyungbang, Ltd.

Mr. Tai Sup Choi

President, Hankook Glass Industry Co., Ltd.

Mr. Jae Ho Chung

Chairman, Samho Textile Co., Ltd.

Mr. Cha Kyung Koo

Chairman, Lucky Chemical Co. Ltd.

Mr. Jin Soo Ha\*

President, The Hanil Bank

Mr. Bo Hyung Lee

President, Pan Korean Insurance Co.

Representing foreign shareholders

Mr. William O. Whitaker\*

Manager, Bank of America, Seoul Branch

Mr. Darwin A. Holway

Senior Vice President, United

Mr. Katsumi Kohiyama

California Bank, Tokyo Branch

General Manager, The Bank of Tokyo, Ltd. Seoul Office

Mr. Helmut Pottgiesser

Deputy Manager, Deutsche Ueberseeische Bank, Tokyo Branch

Representing IFC

Mr. Naokado Nishihara

Special Representative, IFC in the Far East

\* Also Executive Committee members

Regional Projects Department  
Asia Regional Office  
March 23, 1973



KOREA DEVELOPMENT FINANCE CORPORATION

Statement of Operational Policies

(Adopted by the Board of Directors on April 25, 1967  
and amended on February 29, 1968)

The Korea Development Finance Corporation, whose object is to promote the expansion of private enterprise in the Republic of Korea, will be guided by the policies set forth below:

I. The Scope of Investment Activities

- 1) KDFC will invest only in productive enterprises. While its primary activity will be manufacturing and processing industry, it may invest also in other types of enterprises, including transport, tourism, and large-scale commercially oriented agriculture. However, trade, real estate and small-scale agriculture will be excluded.
- 2) KDFC will finance only private enterprises which are properly organized and managed. KDFC will not invest in undertakings which are Government-owned and operated, but a Government holding of not more than 15% of the voting stock of a private enterprise shall not make such enterprise ineligible for financial assistance from KDFC. KDFC will finance both new enterprises and existing ones for expansion or improvement.
- 3) In its operations, KDFC will give due regard to the Government's general economic plans and policies. The following categories of industries will receive high priority, in accordance with the Government economic policies and objectives:
  - a) export industries;
  - b) import-substitute industries;
  - c) industries producing raw materials necessary for production of export commodities and import-substitutes;
  - d) indigenous local industries which have special advantage in comparative costs and potential marketability in foreign markets;
  - e) participation or assistance in the turn-over of the Government-owned industries to private ownership.

- 4) KDFC will assist private enterprises in the following ways:
  - a) medium and long-term loans;
  - b) equity participation (through underwriting, conversion rights, direct participation in share capital or otherwise);
  - c) guarantee of payment for machinery and equipment imported or otherwise;
  - d) guarantee and underwriting of corporate securities;
  - e) technical and managerial consultant services; and
  - f) any other appropriate manner.
- 5) KDFC will seek through its operation, to broaden the ownership of private securities in Korea.
- 6) KDFC's financial assistance will be primarily for expenditures for fixed assets. KDFC will, however, consider requests for permanent working capital in conjunction with its financial assistance for such capital expenditures .
- 7) KDFC will study periodically the trend of over-all industrial development and investment opportunities in the private sector in cooperation with research institutes for promotion of new enterprises or expansion of the existing ones.

## II. Basis for Investment Decisions

- 8) KDFC will make investment decisions only on the basis of sound investment criteria and standards, and will provide financial assistance only to those projects which are financially and economically sound and technically feasible. Special attention will be given to the ability of management and the profitability of the enterprise.

## III. Diversification of Portfolio

- 9) KDFC will diversify its portfolio in order to maintain a reasonable level of risk.
- 10) KDFC will not provide financial assistance of less than the Won equivalent of \$50,000. The maximum financial commitment in whatever form, including loan, share capital or guarantee

or any combination thereof, that KDFC may make to any single enterprise will not exceed 15% of the total of KDFC's paid-in capital, free reserves and Government loan of 1968.

- 11) KDFC will not commit to any single enterprise in form of share capital more than 10% of KDFC's paid-in capital and free reserves. The aggregate equity investment of KDFC at any time will not exceed the total of its paid-in share capital and free reserves.
- 12) In undertaking large-size projects, KDFC will seek cooperation with other financial institutions, both domestic and foreign.

#### IV. Turn-over of Portfolio

- 13) In order to recover its resources for new commitments and to encourage widespread ownership of private securities, KDFC will revolve its portfolio whenever it can do so on satisfactory terms. In selling an investment it will pay due regard not only to its own interests but also to the interests of other participants in such investment, as also to the interest of the concern whose shares are involved.

#### V. Relationship with Enterprises Financed

- 14) KDFC will not take a controlling interest in any enterprise in which it has invested, or any other interest which would give it primary responsibility for management, except that in the case of jeopardy, it may take such action as may be necessary to protect its interest. To this end it will not take up more than 25% of the share capital of an enterprise, except as the result of an underwriting commitment undertaken in the expectation that the investment would in fact be within the limit cited.
- 15) In accordance with normal banking practice, KDFC will require its borrowers to provide and to maintain adequate security, to keep records and accounts in accordance with sound accounting practices, and to furnish whatever information on their operations and accounts KDFC deems desirable. KDFC will take the right to inspect the enterprises it finances as well as their operations and accounts.
- 16) Business secrets and other information furnished by applicants or clients will be treated as confidential.

VI. Financial Guide-Lines

- 17) KDFC will lend and invest its resources in such a way as to maintain the value of its capital. KDFC will pass to its clients any foreign exchange risk it assumes or find other suitable means to cover it.
- 18) KDFC will not incur any debt (not including as debt the loan made by Korean Government in 1968) in excess of three times the aggregate of its paid-in capital, free reserves and the 1968 Government loan outstanding.
- 19) KDFC will maintain accounting records adequate to reflect its business operations in accordance with sound and generally accepted international accounting practices and standards. KDFC will employ qualified and independent public accountants to audit its books and certify the accounts annually.

VII. Profits and Their Distribution

- 20) KDFC will seek to develop earnings sufficient to cover expenses and taxes, to provide reserves adequate to the size and risks of its portfolio and to protect its equity against erosion and to pay satisfactory dividends. It will seek profits on its equity investments and will impose interest rates, fees and other charges for its loans and services which will permit it to achieve that level of profitability. It will build and maintain reserves consistent with sound financial management. It will set aside each year from net income before tax the amount required by law as the legal reserve. In addition, it will accumulate other reserves, including reserve for losses, as considered prudent by the Board of Directors.

VIII. Staff

- 21) KDFC will build up a technically qualified staff capable of carrying the responsibilities which KDFC's objectives create, and able to provide the services to clients which those objectives call for.

IX. Revision of Policies

- 22) Any proposal to revise this Statement of Investment and Operational Policies shall be considered by the Board of Directors only after each member has been given an adequate opportunity to study and comment on the proposal, and it shall be approved at a meeting of the Board of Directors by two-thirds of all directors.

Regional Projects Department

Asia Regional Office

March 23, 1973

## KOREA DEVELOPMENT FINANCE CORPORATION

Audited Income Statements (1969-1972)  
(IN W '000)

<u>As of December 31</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Revenue and Income:				
Interest income on loan and investment	127,062	517,930	1,131,346	(1,753,862
Commitment income	8,045	48,944	43,960	)
Dividend	5,129	16,000	18,877	157,510
Interest income on deposit:				
Time and demand deposits	556,143	503,475	372,465	302,859
Special deposit	115,737	12,762	-	-
Total	<u>812,116</u>	<u>1,099,111</u>	<u>1,566,648</u>	<u>2,214,231</u>
Interest and Commitment Charge:				
Won loan	81,000	81,000	81,000	(
IBRD & AID loan	15,219	105,555	380,799	)929,018
Commitment charge	21,723	48,114	68,696	(
Sub-total	<u>177,942</u>	<u>234,669</u>	<u>530,495</u>	<u>929,018</u>
General and Administrative expense	145,578	197,589	263,107	334,807
Provisions	29,183	63,295	109,604	161,361
Net earnings before income tax	519,413	603,558	663,442	789,045
Income tax	-	-	12,000	99,777
Net income	<u>519,413</u>	<u>603,558</u>	<u>651,442</u>	<u>689,268</u>
Long-term debt/equity	1.1:1	1.7:1	3.0:1	4.2:1
Long-term debt/equity as defined in Bank Loan Agreement	0.2:1	0.6:1	1.5:1	2.4:1

Regional Projects Department  
Asia Regional Office  
March 23, 1973

## KOREA DEVELOPMENT FINANCE CORPORATION

Audited Balance Sheets (1969-72)  
(In W '000)

As of December 31	1969	1970	1971	1972
<u>Assets</u>				
Current assets:				
Cash in banks	18,471	15,456	18,471	38,473
Demand deposits	57,000	21,000	91,000	60,900
Special deposits	340,000	-	-	-
Time deposit, due within one year	2,220,151	1,186,586	1,458,100	1,755,180
Accrued interest receivable	91,474	191,903	443,021	649,889
Other current assets	5,541	31,306	44,252	636,295
Total current assets	2,728,763	2,106,251	2,054,844	3,140,737
Time deposits restricted for employees' severance pay	10,000	18,511	28,511	46,511
Loans and investments:				
IBRD loans	672,509	2,725,837	7,435,817	13,352,570
AID loans	21,665	313,940	868,781	1,120,826
Caterpillar loans	-	-	-	31,728
Local currency loans	705,000	1,584,113	1,799,497	1,399,445
Debentures	670,000	800,000	960,000	825,000
Equity investments	227,908	327,908	615,808	815,808
Less allowance for losses	(29,183)	(92,478)	(202,082)	(363,443)
Total loans and investments	2,327,899	5,659,320	11,477,821	17,181,904
Property and equipment at cost, less accumulated depreciation and amortization	66,621	201,808	202,728	177,047
Fixed non-operating assets	-	-	-	181,992
Other assets, net of amortization	23,795	32,044	30,226	37,375
Total assets	5,157,078	8,017,934	13,794,130	20,765,566
<u>Liabilities</u>				
Current liabilities:				
Accrued interest and commitment fees payable	11,721	33,781	114,630	233,614
Deferred income	4,468	25,308	27,671	13,117
Accrued expenses	1,014	2,236	3,511	49,186
Total current liabilities	17,203	61,325	145,812	295,917
Employees' severance liability	8,160	15,874	27,310	45,070
Long term debt:				
Government loan	2,025,000	2,025,000	2,025,000	2,025,000
IBRD loan	672,509	2,720,696	7,332,805	13,333,760
AID loan	21,665	313,940	879,162	1,124,132
Caterpillar loan	-	-	-	31,728
Total long term debt	2,719,174	5,059,636	10,236,967	16,514,620
Stockholders' equity				
Common stock outstanding	1,350,000	1,485,000	1,633,500	1,800,000
Legal reserve	60,000	90,000	221,000	340,000
Retained earnings:				
Voluntarily appropriated	390,000	590,000	790,000	1,000,000
Unappropriated	612,541	716,099	739,541	769,959
Total stockholders' equity	2,412,541	2,881,099	3,384,041	3,909,959
Total liabilities and equity	5,157,078	8,017,934	13,794,130	20,765,566
Earnings before interest, tax and provisions as % of average total assets	15.4	13.7	12.0	11.0
Dividend pay-out ratio (%)	26.0	24.6	25.1	26.1
Profit after tax and provisions as % of average equity	24.1	22.8	20.7	18.9
Administrative costs as % of average total assets	2.4	3.0	2.4	1.7



KOREA DEVELOPMENT FINANCE CORPORATION  
Loans in Arrears as of December 31, 1972

Unit: US Dollars Equivalent  
(Exchange rate applied \$1 = W100)

<u>Company</u>	<u>Total outstanding balance</u>	<u>Arrears by length</u>												
		<u>Total</u>			<u>up to 3 months</u>		<u>3-6 months</u>		<u>6-12 months</u>		<u>1-2 years</u>		<u>2-3 years</u>	
	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Subtotal</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Shinkwang Enterprise Co., Ltd.	291,289.75	111,630.96	44,965.76	160,616.71	19,793.20	9,450.38	9,495.03	1,993.96	42,923.59	13,250.05	32,933.91	19,287.64	6,485.23	5,003.75
Man Hwa Cast Iron Works Co., Ltd.	393,780.97	132,075.15	65,747.73	221,822.86	17,559.94	11,043.36	27,272.26	5,727.16	38,934.96	22,667.76	48,307.98	50,309.42	-	-
Mashin Industrial Co., Ltd.	552,204.97	34,649.14	94,089.18	126,938.32	26,937.79	23,857.43	7,911.35	7,505.63	-	31,363.06	-	31,363.06	-	-
Se Jung Sil Up Co., Ltd.	130,602.12	22,235.26	12,029.06	34,264.32	14,426.32	5,904.31	-	-	7,806.69	6,124.75	-	-	-	-
Hankook Titanium Industry Co., Ltd.	894,016.35	169,851.86	184,812.41	354,664.27	31,693.20	19,931.68	61,766.17	40,411.50	76,370.48	65,342.56	-	59,126.68	-	-
Korea Heavy Machinery Co., Ltd.	500,375.28	-	116,244.12	116,244.12	-	41,147.83	-	25,018.76	-	50,037.53	-	-	-	-
	2,762,269.44	470,642.37	545,906.28	1,016,550.65	110,440.50	111,374.99	106,466.01	60,657.03	166,037.94	186,785.71	61,241.69	160,086.60	6,485.23	5,003.75

Regional Projects Department  
Asia Regional Office  
March 23, 1973

## KOREA DEVELOPMENT FINANCE CORPORATION

Summary of Approvals, Commitments and Disbursements  
(1968 - 1972)(Local currency W million)  
(Foreign currency \$ 000)

<u>Approvals</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>Total</u>
Local currency:						
Loans	320	575	920	286	390	2,491
Equity investments <sup>1/</sup>	268	630	330	388	200	1,816
Total local currency approvals	588	1,205	1,250	674	590	4,307
Foreign currency loans	1,958	6,427	15,805	9,292	20,694	54,176
Total approvals (W million) <sup>2/</sup>	1,136	3,167	6,267	4,150	8,678	23,398
<u>Commitments</u>						
Local currency:						
Loans	270	595	850	386	320	2,421
Equity investment <sup>1/</sup>	268	630	230	488	200	1,816
Total local currency commitment	538	1,225	1,080	874	520	4,237
Foreign currency loans	455	7,001	14,485	6,980	12,490 <sup>3/</sup>	41,411
Total commitments (W million) <sup>2/</sup>	665	3,362	5,678	3,485	5,522	18,712
<u>Disbursements</u>						
Local currency:						
Loans	40	725	830	440	331	2,366
Equity investments <sup>1/</sup>	260	638	230	488	200	1,816
Total local currency disbursements	300	1,363	1,060	928	531	4,182
Foreign currency loans	-	2,293	7,470	11,369	16,157	37,289
Total disbursements (W million) <sup>2/</sup>	300	2,063	3,431	5,181	7,002	17,977

<sup>1/</sup> Including convertible debentures.

<sup>2/</sup> Exchange rate applied: \$1 : W280 for 1968  
 \$1 : W305.20 for 1969  
 \$1 : W317.40 for 1970  
 \$1 : W374.10 for 1971  
 \$1 : W400.50 for 1972

<sup>3/</sup> As of December 31, 1972, projects aggregating \$6.6 million (not included in the commitments figure of \$12,490,000 above) had been approved by IBRD but the formal loan contracts for these between KDFC and its clients were ratified subsequent to this date.

Regional Projects Department  
 Asia Regional Office  
 March 23, 1973

## KOREA DEVELOPMENT FINANCE CORPORATIONS

Investment Approvals by Industry (1968 - 1972) <sup>1/</sup>  
(Unit: Million Won and Thousand US\$)

Industrial Category	1968				1969				1970				1971				1972				Cumulative Total									
	No.	W	\$	%	No.	W	\$	%	No.	W	\$	%	No.	W	\$	%	No.	W	\$	%	No.	W	\$	%						
Fisheries	-	-	-	-	-	-	-	-	-	-	-	-	3	-	2,178	871.2	20.8	12	130	9,235	3,824.0	36.6	15	130	11,413	4,695.2	17.7			
Mining and Quarrying	1	200	-	200	21.8	1	150	764	455.6	11.8	1	100	-	100	1.4	-	-	2	70	184	143.6	1.4	5	520	948	899.2	3.4			
Food and Beverage	-	-	-	-	1	85	191	161.4	4.2	3	-	2,941	1,176.4	16.4	4	100	1,077	530.8	12.7	1	-	400	160.0	1.5	9	185	4,609	2,028.0	7.6	
Textile, Wearing Apparel and Leather																														
Textile (natural)	3	160	305	282	30.7	1	-	292	116.8	3.1	3	50	1,429	621.6	8.7	1	-	-	-	2	70	443	247.2	2.4	9	280	2,409	1,267.6	4.8	
Textile (man-made)	2	178	150	238	25.9	1	-	130	52.0	1.3	6	330	3,850	1,870.0	26.1	1	-	1,180	472.0	11.3	1	50	-	50.0	0.5	11	558	5,310	2,582.0	10.1
Wearing Apparel	-	-	-	-	-	3	-	834	333.6	8.6	-	-	-	-	-	1	-	426	170.4	4.1	-	-	-	-	4	-	1,260	504.0	1.9	
Leather	-	-	-	-	-	1	40	294	157.6	4.1	1	50	-	50.0	0.7	1	-	271	108.4	2.6	-	-	-	-	3	90	505	316.0	1.2	
Sub-total	5	338	455	520	56.6	6	40	1,550	660.0	17.1	10	430	5,279	2,541.6	35.5	3	-	1,877	750.8	18.0	3	120	443	297.2	2.8	27	928	9,604	4,769.6	18.0
Wood and Wood Products	-	-	-	-	-	-	-	-	-	1	-	419	167.6	2.3	-	-	-	-	-	-	-	1	-	419	676.6	0.0	-	-	-	-
Paper and Paper Products	-	-	-	-	1	250	-	250.0	6.5	-	-	-	-	-	1	-	810	324.0	7.8	1	-	1,460	584.0	5.6	3	250	2,270	1,158.0	4.4	
Chemicals, Petroleum, Coal, Rubber and Plastic Products																														
Industrial Chemicals	-	-	-	-	1	-	498	199.2	5.2	1	100	429	271.6	3.8	1	70	-	70.0	1.7	1	200	500	400.0	3.8	4	370	1,427	940.8	3.5	
Rubber Products	-	-	-	-	-	180	1,087	644.8	15.9	-	-	-	-	-	1	-	377	150.8	3.6	-	-	-	-	2	180	1,464	765.6	2.9		
Other Chemicals	-	-	-	-	-	-	-	-	-	2	100	353	241.2	3.4	-	-	-	-	-	2	-	607	242.8	2.3	4	100	900	484.0	1.8	
Sub-total	-	-	-	-	2	180	1,585	814.0	21.1	3	200	782	512.8	7.2	2	70	377	220.8	5.3	3	200	1,107	642.8	6.1	10	650	3,851	2,190.4	8.2	
Non-Metallic Mineral Products																														
Glass	1	-	495	198	21.6	2	350	397	508.8	13.2	1	100	467	286.8	4.0	1	-	100	40.0	1.0	1	-	205	82.0	0.8	6	450	1,666	1,115.6	4.2
Cement	-	-	-	-	-	-	-	-	-	1	100	695	378.0	5.3	2	-	345	138.0	3.3	-	-	-	-	3	100	1,110	516.0	1.9		
Slate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	475	190.0	1.8	1	-	475	190.0	0.7	
Sub-total	1	-	495	198	21.6	2	350	397	508.8	13.2	2	200	1,162	664.8	9.3	3	-	445	178.0	4.3	2	-	680	272.0	2.6	10	550	3,179	1,821.6	6.9
Basic Metal																														
Iron and Steel	-	-	-	-	1	30	269	137.6	3.6	2	20	1,814	745.6	10.4	-	-	-	-	-	1	-	2,050	820.0	7.9	4	50	4,133	1,703.2	6.4	
Sub-total	-	-	-	-	1	30	269	137.6	3.6	2	20	1,814	745.6	10.4	-	-	-	-	-	1	-	2,050	820.0	7.9	4	50	4,133	1,703.2	6.4	
Metal Products, Machinery and Equipment																														
Metal Products	-	-	-	-	2	80	477	270.8	7.0	1	70	514	275.6	3.8	1	120	-	120.0	2.9	2	30	865	376.0	3.6	6	300	1,856	1,042.4	3.9	
Machinery	-	-	-	-	-	-	-	-	-	2	60	292	176.8	2.5	-	-	-	-	-	-	-	-	-	-	2	60	292	176.8	0.7	
Electrical Equipment and Appliances	-	-	-	-	5	60	1,030	472.0	12.2	-	-	-	-	-	2	80	650	340.0	8.1	1	40	-	40.0	0.4	8	180	1,680	852.0	3.2	
Transport Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	200	890	556.0	13.3	-	-	-	-	-	1	200	890	556.0	2.1	
Sub-total	-	-	-	-	7	140	1,507	742.8	19.2	3	130	806	452.4	6.3	4	400	1,540	1,016.0	24.3	3	70	865	416.0	4.0	17	740	4,718	2,627.2	9.9	
Marine Transport	-	-	-	-	1	-	323	129.2	3.3	1	-	2,000	800.0	11.2	-	-	-	-	-	5	-	8,200	3,280.0	31.4	7	-	10,523	4,209.2	15.8	
Others (Financing)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	288	-	288.0	6.2	-	-	-	-	-	1	288	-	288.0	1.1	
Total	7	538	950	918	100.0	22	1,225	6,586	3,859.4	100.0	26	1,080	15,203	7,161.2	100.0	21	858	8,304	4,179.6	100.0	33	590	24,624	10,439.6	100.0	109	4,291	55,667	26,557.8	100.0

<sup>1/</sup> Including loans, debentures and equity investments.<sup>2/</sup> Foreign exchange applied: W400:US\$1; accordingly the figure differs from total approvals shown in Annex 4, calculated at various rates of exchangeRegional Projects Department  
Asia Regional Office  
March 23, 1973

**KOREA DEVELOPMENT FINANCE CORPORATION**

Investment Approvals by Geographical Spread, Type of Loans,  
Size of Loans, and Maturities (1968-1972)  
(Unit: Million Won and thousands US\$)

Geographical Spread	1968					1969					1970					1971					1972					Cumulative Total					
	No.	W	\$	W total	%	No.	W	\$	W total	%	No.	W	\$	W total	%	No.	W	\$	W total	%	No.	W	\$	W total	%	No.	W	\$	W total	%	
area	2	-	800	320	34.9	8	425	2,296	1,344	34.8	11	310	7,357	3,253	45.4	14	708	6,623	3,358	80.3	19	240	16,376	6,790.6	85.0	54	1,683	33,452	15,064	56.7	
area	1	148	-	148	16.1	2	-	628	251	6.5	2	300	419	468	6.5	-	-	-	-	-	-	6	300	6,174	2,659.6	25.6	11	648	7,221	3,536	13.3
ski-Do	2	70	150	130	14.2	6	350	1,448	929	24.1	4	220	888	575	8.0	4	100	371	248	5.9	6	150	1,393	707.2	6.8	22	890	4,250	2,590	9.8	
gangsan-Do	-	-	-	-	-	-	-	-	-	-	2	-	2,617	1,047	14.6	1	50	650	310	7.4	1	-	497	199	1.9	4	50	3,764	1,556	5.9	
gangbuk-Do	1	200	-	200	21.8	3	150	1,464	736	19.1	6	250	3,232	1,542	21.6	1	-	175	70	1.7	1	-	184	73.6	0.7	12	600	5,055	2,622	9.9	
gangchungnam-Do	-	-	-	-	-	1	30	477	221	5.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	30	477	221	0.8	
gangchungbuk-Do	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	485	194	4.7	-	-	-	-	-	1	-	485	194	0.7	
gangnam-Do	1	120	-	120	13.0	-	-	-	-	-	1	-	690	276	3.9	-	-	-	-	-	-	-	-	-	-	2	120	690	396	1.5	
gangbuk-Do	-	-	-	-	-	2	270	273	379	9.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	270	273	379	1.4	
Total	7	538	950	918	100.0	22	1,225	6,586	3,860	100.0	26	1,080	15,203	7,161	100.0	21	858	8,304	4,180	100.0	33	590	24,624	10,440	100.0	109	4,291	55,667	26,558	100.0	
Local currency	5	538	-	538	58.6	13	1,225	-	1,225	31.7	12	1,080	-	1,080	15.1	7	858	-	858	20.5	7	590	-	590	5.7	44	4,291	-	4,291	16.2	
Foreign currency	2	-	950	380	41.4	19	-	6,586	2,635	68.3	20	-	15,203	6,081	84.9	16	-	8,304	3,322	79.5	28	-	24,624	9,850	94.3	86	-	55,667	22,267	83.8	
Total	8	538	950	918	100.0	32	1,225	6,586	3,860	100.0	32	1,080	15,203	7,161	100.0	23	858	8,304	4,180	100.0	35	590	24,624	10,440	100.0	130	4,291	55,667	26,558	100.0	
Size of Loans																															
15 - 30	-	-	-	-	-	-	-	-	-	-	1	20	-	20	0.3	1	30	-	30	0.7	-	-	-	-	-	2	50	-	50	0.2	
30 - 90	2	70	150	130	14.2	7	120	760	424	11.0	4	160	186	234	3.3	4	70	445	248	5.9	7	230	499	429.6	4.1	24	650	2,040	1,466	5.5	
90 - 150	3	268	305	390	42.5	6	70	1,710	754	19.5	3	100	527	311	4.3	6	220	1,141	677	16.2	2	130	352	271	2.6	20	788	4,035	2,402	9.0	
150 - 300	2	200	495	398	43.3	6	405	1,868	1,152	29.8	12	700	5,559	2,924	40.8	5	288	1,788	1,003	24.0	9	30	4,080	1,662.2	15.9	34	1,623	13,790	7,139	26.9	
300 - 500	-	-	-	-	-	2	450	1,161	915	23.8	1	100	695	378	5.3	3	50	2,640	1,106	26.5	6	200	5,156	2,262.4	21.7	12	800	9,652	4,661	17.6	
500 - 600	-	-	-	-	-	-	-	-	-	-	2	-	2,617	1,047	14.6	2	200	2,290	1,116	26.7	4	-	5,087	2,034.8	19.5	8	200	9,994	4,198	15.8	
Above 600	-	-	-	-	-	1	180	1,087	615	15.9	3	-	5,619	2,247	31.4	-	-	-	-	-	5	-	9,450	3,780	36.2	9	180	16,156	6,642	25.0	
Total	7	538	950	918	100.0	22	1,225	6,586	3,860	100.0	26	1,080	15,203	7,161	100.0	21	858	8,304	4,180	100.0	33	590	24,624	10,440	100.0	109	4,291	55,667	26,558	100.0	
Maturities (years)																															
Up to 5	3	270	-	270	41.5	11	595	-	595	18.4	9	750	-	750	10.8	5	200	270	308	8.5	6	390	-	390	3.8	34	2,205	270	2,313	9.4	
6 - 7	-	-	-	-	-	1	-	764	305.6	9.5	4	100	2,848	1,239.2	17.9	5	100	2,353	1,041.2	28.8	6	-	2,436	974.4	9.5	16	200	8,401	3,560.4	14.4	
8 - 9	3	-	950	380	58.5	17	-	4,735	1,894	58.6	17	-	12,355	4,942	71.3	9	-	4,791	1,916.4	52.9	7	-	3,330	1,332	13.0	53	-	26,161	10,464.4	42.4	
10 - 12	-	-	-	-	-	1	-	1,087	434.8	13.5	-	-	-	-	-	1	-	890	356	9.8	15	-	18,858	7,543.2	73.7	17	-	20,835	8,334	33.8	
13 and over	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	6	270	950	650	100.0	30	595	6,586	3,229.4	100.0	30	850	15,203	6,931.2	100.0	20	300	8,304	3,621.6	100.0	34	390	24,624	10,239.6	100.0	120	2,405	55,667	24,671.8	100.0	
Cumulative total	6	270	950	650		36	865	7,536	3,879.4		66	1,715	22,739	10,810.6		86	2,015	3,043	14,432.2		120	2,405	55,667	24,671.8							

Note: Above table includes loans, debentures and equity investments except "Maturities" which includes only loans.

Regional Projects Department  
Asia Regional Office  
March 23, 1973

KOREA DEVELOPMENT FINANCE CORPORATION

Approvals of Guarantees, Equity Investments,

Convertible Debentures and Underwritings (1968-1972)  
(Million Won)

	1968		1969		1970		1971		1972		Total	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
Guarantees	-	-	-	-	-	-	1	30	-	-	1	30
Equity Investment	1	140	1	88	1	100	1	288	-	-	4	616
Convertible Debentures	1	120	2	550	3	230	1	100	1	200	8	1,200
Underwritings	-	-	-	-	-	-	-	-	-	-	-	-
Total	2	260	3	638	4	330	3	418	1	200	13	1,846

Regional Projects Department  
Asia Regional Office  
March 23, 1973

## KOREA DEVELOPMENT FINANCE CORPORATION

ANNEX 12

Forecast of Approvals, Commitments and Disbursements (1973-1977)

(Domestic currency: In million won)

(Foreign currency: In thousand \$)

<u>Year ending December 31,</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Approvals</u>					
Domestic currency loans	1,600	1,750	2,000	2,250	2,500
Domestic currency equity investments	200	250	300	350	400
Foreign currency loans	<u>23,900</u>	<u>22,700</u>	<u>25,775</u>	<u>28,750</u>	<u>30,400</u>
Total approvals (US\$ equivalent)	<u>28,400</u>	<u>27,700</u>	<u>31,525</u>	<u>35,250</u>	<u>37,650</u>
<u>Commitments</u>					
Domestic currency:					
Loans	1,570	1,750	2,000	2,200	2,550
Equity investments	<u>200</u>	<u>250</u>	<u>300</u>	<u>300</u>	<u>350</u>
Total commitments of domestic currency	1,770	2,000	2,300	2,500	2,900
Foreign currency loans:					
Total commitments of foreign currency	<u>27,000</u>	<u>23,000</u>	<u>25,000</u>	<u>28,000</u>	<u>30,000</u>
Total commitments (US\$ equivalent)	<u>31,425</u>	<u>28,000</u>	<u>30,750</u>	<u>34,250</u>	<u>37,250</u>
<u>Disbursements</u>					
Domestic currency:					
Loans	1,385	1,740	1,850	2,150	2,400
Equity investments	<u>100</u>	<u>250</u>	<u>400</u>	<u>300</u>	<u>350</u>
Total disbursement in domestic currency	1,485	1,990	2,250	2,450	2,750
Foreign currency loans:					
Total disbursement in foreign currency	<u>32,740</u>	<u>22,650</u>	<u>24,700</u>	<u>27,150</u>	<u>29,350</u>
Total disbursements (US\$ equivalent)	<u>36,453</u>	<u>27,625</u>	<u>30,325</u>	<u>33,275</u>	<u>36,225</u>

Regional Projects Department  
Asia Regional Office  
March 23, 1973

## KOREA DEVELOPMENT FINANCE CORPORATION

Projected Balance Sheets (1973-1977)

(In million won)

<u>As of December 31,</u>	<u>1972</u> <u>actual</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Assets</u>						
Cash and short-term deposits	38	40	40	40	40	40
Fixed deposits	1,816	1,816	1,516	916	916	916
Short-term investments	636	1,042	485	59	969	239
Accrued interest income receivable	650	1,269	1,769	2,225	2,524	3,193
	<u>3,140</u>	<u>4,167</u>	<u>3,810</u>	<u>3,240</u>	<u>4,449</u>	<u>4,383</u>
Outstanding loans						
Domestic currency	2,224	3,159	4,207	5,364	6,623	7,885
Foreign currency	14,506	25,767	31,628	37,577	43,762	50,054
	<u>16,730</u>	<u>28,926</u>	<u>35,835</u>	<u>42,941</u>	<u>50,385</u>	<u>57,939</u>
Less provision for doubtful loans	(346)	(574)	(710)	(850)	(997)	(1,146)
	<u>16,384</u>	<u>28,352</u>	<u>35,125</u>	<u>42,091</u>	<u>49,388</u>	<u>56,793</u>
Equity investments	816	916	1,066	1,266	1,266	1,216
Less provision for doubtful investments	(16)	(23)	(28)	(34)	(36)	(37)
	<u>800</u>	<u>893</u>	<u>1,038</u>	<u>1,232</u>	<u>1,230</u>	<u>1,179</u>
Total loans and investments	17,184	29,245	36,163	43,323	50,618	57,972
Fixed assets (net)	442	466	487	515	548	588
Total assets	<u>20,766</u>	<u>33,878</u>	<u>40,460</u>	<u>47,078</u>	<u>55,615</u>	<u>62,948</u>
<u>Liabilities and equity</u>						
Tax payable	29	101	189	215	256	369
Accrued interest payable	233	446	535	635	734	834
Dividends payable	34	247	360	360	405	540
	<u>296</u>	<u>794</u>	<u>1,084</u>	<u>1,210</u>	<u>1,395</u>	<u>1,743</u>
Domestic currency borrowings	2,025	2,025	2,025	2,025	2,025	1,991
Foreign currency borrowings	14,490	25,751	31,612	37,561	43,746	50,038
	<u>16,515</u>	<u>27,776</u>	<u>33,637</u>	<u>39,586</u>	<u>45,771</u>	<u>52,029</u>
Allowance for retirements	45	70	97	128	164	205
Share capital	1,800	3,000	3,000	3,000	4,500	4,500
Reserves and unappropriated surplus	2,110	2,238	2,642	3,154	3,785	4,471
	<u>3,910</u>	<u>5,238</u>	<u>5,642</u>	<u>6,154</u>	<u>8,285</u>	<u>8,971</u>
Total liabilities and equity	<u>20,766</u>	<u>33,878</u>	<u>40,460</u>	<u>47,078</u>	<u>55,615</u>	<u>62,948</u>
Long-term debt/equity	4.2:1	5.3:1	5.9:1	6.4:1	5.5:1	5.8:1
Long-term debt/equity as defined in Bank Loan Agreement	2.4:1	3.5:1	4.1:1	4.6:1	4.2:1	4.6:1

## KOREA DEVELOPMENT FINANCE CORPORATION

Projected Statements of Income (1973-1977)  
(In million won)

<u>Year ending December 31</u>	<u>Actual</u> <u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Income</u>						
Income from loans						
Domestic currency loans	514	429	503	601	719	844
Foreign currency loans	1,165	1,930	2,709	3,270	2,847	4,439
Commitment charge and other fees	74	90	75	88	100	110
		<u>2,449</u>	<u>3,287</u>	<u>3,959</u>	<u>4,666</u>	<u>5,393</u>
Dividend income and other income	127	130	170	202	234	266
Income from short-term investments	38	70	63	53	60	60
Interest income from deposits	296	213	189	124	90	143
		<u>283</u>	<u>252</u>	<u>177</u>	<u>150</u>	<u>203</u>
Total income	<u>2,214</u>	<u>2,862</u>	<u>3,709</u>	<u>4,338</u>	<u>5,050</u>	<u>5,862</u>
<u>Expenses</u>						
Interest & commitment charges on borrowings						
Domestic currency borrowings	82	81	81	81	81	81
Foreign currency borrowings	756	1,408	2,008	2,419	2,846	3,282
Commitment charge	91	105	97	123	138	140
	<u>929</u>	<u>1,594</u>	<u>2,186</u>	<u>2,623</u>	<u>3,065</u>	<u>3,503</u>
Salaries and other personnel expenses	131	157	181	208	239	275
Other administrative and general expenses	153	220	248	274	305	339
Provision for doubtful loans and investments	212	235	141	146	149	150
	<u>496</u>	<u>612</u>	<u>570</u>	<u>628</u>	<u>693</u>	<u>764</u>
Total expenses	<u>1,425</u>	<u>2,206</u>	<u>2,756</u>	<u>3,251</u>	<u>3,758</u>	<u>4,267</u>
Profit before tax	789	656	953	1,087	1,292	1,595
Provision for tax	100	101	189	215	256	369
Net profit	<u>689</u>	<u>555</u>	<u>764</u>	<u>872</u>	<u>1,036</u>	<u>1,226</u>
<u>Appropriation</u>						
Dividends	163	247	360	360	405	540
Reserves & unappropriated surplus	526	308	404	512	631	686
Earnings before interest, tax & provisions as % of average total assets	11	9.1	8.8	8.8	8.9	8.9
Dividend pay-out ratio (%)	26.1	44.5	47.1	41.2	39.0	44.0
Profit after tax & provisions as % of average equity	18.9	12.1	14.0	14.8	14.3	14.2
Administrative costs as % of average total assets	1.7	1.4	1.2	1.1	1.0	1.0



KOREA DEVELOPMENT FINANCE CORPORATION  
Projected Cash Flow Statements (1973-1977)  
(In million won)

<u>Year ending December 31,</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Sources</u>					
Profit before tax	656	953	1,087	1,292	1,595
Add back non-cash charges (depreciation, provisions, write-offs, etc.)	<u>265</u>	<u>177</u>	<u>184</u>	<u>191</u>	<u>196</u>
Cash generated from operations	921	1,130	1,271	1,483	1,791
Increase in share capital	1,020	-	-	1,500	-
Disposition of equity investments	-	100	200	300	400
Draw-down on foreign currency borrowings	13,096	9,060	9,880	10,860	11,740
Loan collections:					
Against domestic currency loans	450	692	693	891	1,138
Against foreign currency loans	1,835	3,199	3,931	4,675	5,448
	<u>17,322</u>	<u>14,181</u>	<u>15,975</u>	<u>19,709</u>	<u>20,517</u>
<u>Uses</u>					
Increase in fixed assets	29	30	35	39	45
Disbursements of loans:					
Domestic currency loans	1,385	1,740	1,850	2,150	2,400
Foreign currency loans	13,096	9,060	9,880	10,860	11,740
Equity investments	100	250	400	300	350
Repayments:					
Against foreign currency borrowings	1,835	3,199	3,931	4,675	5,448
Against domestic currency borrowings	-	-	-	-	34
Increase in receivables	619	500	456	299	669
Less increase in payables	(213)	(89)	(100)	(99)	(100)
Payment of tax	29	101	189	215	256
Increase (decrease) in fixed deposits	-	(300)	(600)	-	-
Payment of dividend	34	247	360	360	405
Increase (decrease) in short-term investments and cash	408	(357)	(426)	910	(730)
	<u>17,322</u>	<u>14,181</u>	<u>15,975</u>	<u>19,709</u>	<u>20,517</u>

KOREA DEVELOPMENT FINANCE CORPORATIONEstimated Disbursement Schedule  
(US\$ '000)1974

January - March	1,406
April - June	2,812
July - September	3,609
October - December	4,407

1975

January - March	4,548
April - June	4,688
July - September	4,691
October - December	4,319

1976

January - March	3,359
April - June	2,562
July - September	1,787
October - December	1,012

1977

January - March	200
April - June	200
July - September	200
October - December	200

Regional Projects Department  
Asia Regional Office  
March 23, 1973

# KOREA DEVELOPMENT FINANCE CORPORATION

## ORGANIZATION CHART

CHART

